OUR POSITION OUR PROMISE

2015 Annual Report

Western Area Power Administration

CONTENTS

MISSION

Market and deliver clean, renewable, reliable, cost-based federal hydroelectric power and related services

VISION

Continue to provide premier power marketing and transmission services to our customers, as well as contribute to enhancing America's energy security and sustaining our nation's economic vitality

ABOUT WESTERN

Western is a power marketing administration under the Department of Energy that markets and transmits wholesale electrical power across 15 states through an integrated 17,000-plus circuit mile, high-voltage transmission system.

Employees work around the clock to sell power and operate and maintain the transmission system that provides energy to:

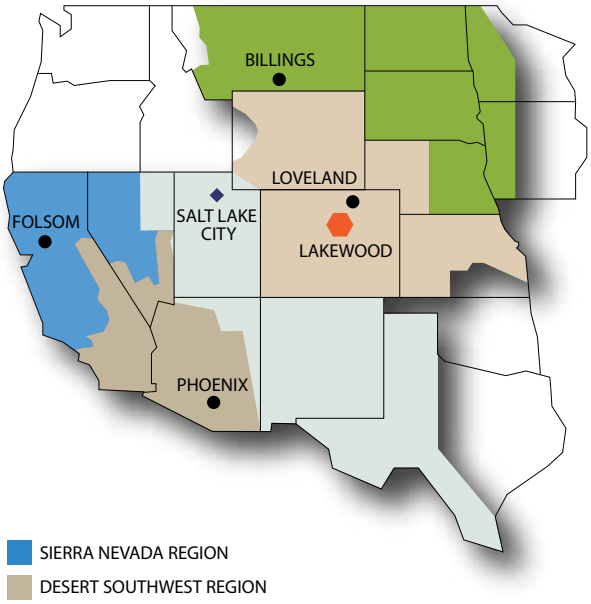
- Cooperatives
- Federal and state agencies
- Investor-owned utilities
- Municipalities
- Native American tribes
- Public utility and irrigation districts
- Power marketers
- Joint power authorities
- Transportation districts
- Independent system operator corporations
- Regional transmission organizations

Our customers then provide electric service to more than 40 million people from Texas to the Dakotas, and from the lakes of Minnesota to the California coastline.

SERVICE AND MARKETING AREAS

Western delivers power from 10 rate-setting projects that encompass both Western's transmission facilities and the power-generating facilities owned and operated by the Bureau of Reclamation, the Army Corps of Engineers and the State Department's International Boundary and Water Commission. These projects are made up of 14 multipurpose water resource projects, one coal-fired plant and one transmission project. Power rates are set to recover all costs, with interest, associated with power delivery, such as annual operating costs, the specific allocated multipurpose costs associated with recovering the federal investment in the generation facilities and other costs assigned to power for repayment.

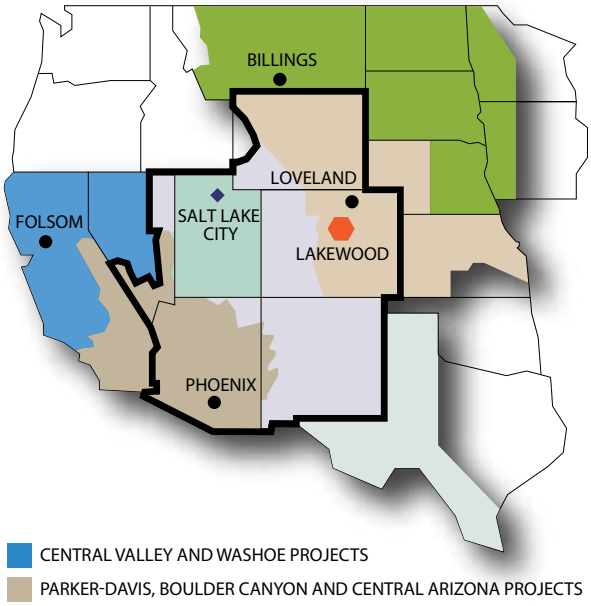
SERVICE AREAS



- SIERRA NEVADA REGION
- DESERT SOUTHWEST REGION
- COLORADO RIVER STORAGE PROJECT MANAGEMENT CENTER
- ROCKY MOUNTAIN REGION
- UPPER GREAT PLAINS REGION
- STATE BOUNDARIES
- REGIONAL OFFICE
- HEADQUARTERS
- COLORADO RIVER STORAGE PROJECT MANAGEMENT CENTER OFFICE

A service area identifies a Western region's geographic territory while a marketing area defines the boundaries of a hydropower project's customer base.

MARKETING AREAS



- CENTRAL VALLEY AND WASHOE PROJECTS
- PARKER-DAVIS, BOULDER CANYON AND CENTRAL ARIZONA PROJECTS
- FALCON-AMISTAD PROJECT
- PROVO RIVER PROJECT
- LOVELAND AREA PROJECTS
  PICK-SLOAN MISSOURI BASIN PROGRAM—WESTERN DIVISION AND FRYINGPAN-ARKANSAS PROJECT
- PICK-SLOAN MISSOURI BASIN PROGRAM—EASTERN DIVISION
- SALT LAKE CITY AREA/INTEGRATED PROJECTS
  COLORADO RIVER STORAGE, COLLBRAN, RIO GRANDE, SEEDSKADEE AND DOLORES PROJECTS
- STATE BOUNDARIES
- REGIONAL OFFICE
- HEADQUARTERS
- COLORADO RIVER STORAGE PROJECT MANAGEMENT CENTER OFFICE

WESTERN AT A GLANCE

PEAK LOAD

5,368 MW
JUNE 30, 2015

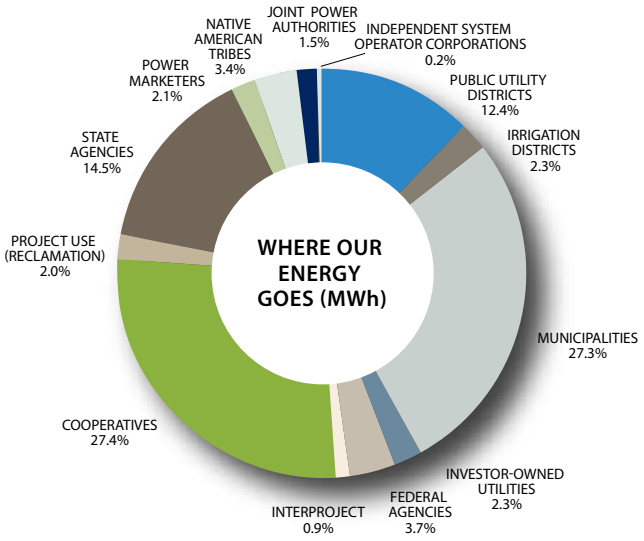
- **1,441** employees
- **681** customers
- **57** powerplants — Includes 56 hydropower and one coal-fired powerplant
- Helped power **40** million Americans
- **$910.7** million sales of electric power
- **17,231** transmission line miles
- **319** substations
- **32** billion kWh sold
- **10,503** MW installed capacity

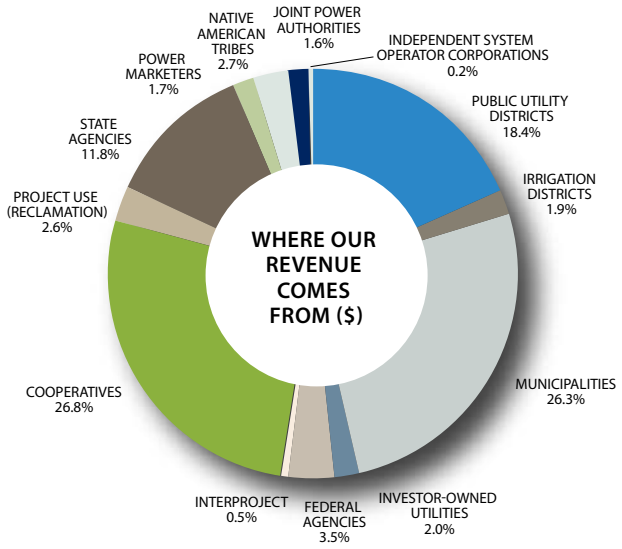
MARKETING PROFILE

28.4	26.6	0.5	4.9
billion kWh net generation	billion kWh long-term energy sales	billion kWh pass-through energy sales	billion kWh other energy sales

FINANCIAL PROFILE

$1,345.8	$1,023.6	$266.0
million total operating revenues	million total operating expenses	million purchased power and transmission services





ADMINISTRATOR AND CEO'S LETTER

We are in a good position. Together with our customers, Western continues to be among the lowest-cost and reliable providers of electricity in the nation.

Western is steadfast in its promise to expand our transparency as we adjust to meet changing industry demands. We remain committed to collaboration. Our goal is to continue to be inclusive of customers and stakeholders in operational choices and capital planning efforts; Asset Management and 10-year planning are two good examples of how we are accomplishing this.

In 2015, we completed more than $230 million in capital projects, finalized preparations to become the first power marketing administration to fully join a market and worked with peers and partners to further the industry's fall protection effort. These feats were made possible by efficient business practices and streamlined processes, with only nominal increases to costs and no additional headcount.

Western works diligently to minimize the impact of rates by following the first critical pathway on our Roadmap—Business, Technology and Organizational Excellence—and continuing to work in mutually beneficial partnerships with customers. We have achieved a number of critical milestones by evolving our services to match changes across the energy frontier.

Western is well positioned to actively pursue relevant opportunities to be effective stewards of our customers' money and our nation's assets. Despite rising costs of infrastructure replacement, environmental regulation, varying hydrology conditions, physical and cybersecurity threats and subsequent enhancements and new operational requirements ranging from the Clean Power Plan to real-time engineering, Western has contained costs and reduced its request for appropriations.

We have grown much over our 38-year history. Although our position evolves to meet the changing industry around us, we remain true to our promises. We must remain organizationally excellent, open to the benefits of partnership and willing to evolve to meet the changing times while focusing on providing power at the lowest possible cost consistent with sound business principles.

That is how we will continue to collaboratively power the energy frontier.

Sincerely,

Mark A. Gabriel
Administrator and CEO

OUR POSITION

OUR PROMISE

Western has a singular mission, one that is distinct among federal organizations—to market and deliver clean, renewable, reliable, cost-based federal hydropower and related services. Our mission serves as our promise to our customers, to the public and ultimately to our nation. Our promise also includes operating collaboratively and transparently and it drives every decision we make, from how we structure our organization, to the partnerships in which we engage, to how we keep pace in this evolving energy industry.

Our mission is both energizing and powerful. We have been delivering on it for 38 years. Toward it, we demonstrate a laser-beam focus. We look to Strategic Roadmap 2024 to keep that focus into the future, mindful that to be positioned to continue delivering on our promise, we must look even further ahead.

The energy industry is evolving quickly, and shows no signs of slowing. Delivering on our promise in an increasingly innovative industry requires great agility. To keep pace and remain relevant, we must position ourselves to respond to growing industry demands. This requires a new way of thinking, a new way of operating and a new way of planning.

Our organization, operations and accomplishments reveal many ways we swiftly adapt as we continue to provide premier power marketing and transmission services. Fiscal Year 2015 demonstrated that Western is well positioned to fulfill its promise for decades to come.

This requires a new way of

THINKING,

a new way of

OPERATING

and a new way of

PLANNING.

Continuing to make good on our promise while facing growing industry demands requires a new way of

THINKING.

Ensuring we are positioned well to remain relevant in the energy sector begins with examining and improving our own organizational health. Western achieves this by following the first critical pathway on its Roadmap—Business, Technology and Organizational Excellence.

Western demonstrated adaptable thinking in Fiscal Year 2015, and that agile thinking yielded results. We remain committed to expanding our organizational excellence, steadfast in the knowledge that forward-looking and nimble thinking serves as a foundation for us to achieve our vision and further strengthen our position.

IT Evolution channels collaboration, communication

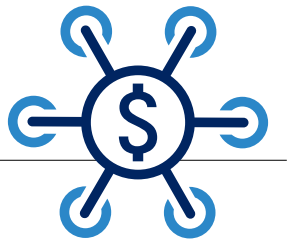
A year in the making, Western's Office of the Chief Information Officer implemented its Information Technology Evolution in August 2015. The strategic restructuring served as the first step to pave the way to improve our IT strengths, maximize our technology investments and provide agile support to our evolving business needs.

With a clear vision to provide cost-effective, consistent IT support throughout Western, the OCIO focused on a smooth restructure. The transformation required skillful leadership and strong communication, which was evidenced by regular conversations between senior leaders, first-line supervisors, IT staff, unions and business partners to ensure awareness of both big-picture as well as tactical changes.

Before the end of FY 2015, the IT Evolution contributed to

$3 million in cost avoidance

through innovative solutions and combining both resources and expertise.



Leveraging strengths of Western's experts

In July, Western brought together its five leadership councils for a first-ever summit to collaborate on strategic topics and shared goals. The councils, which typically meet individually, serve as an important operating link in Western's power marketing system; they plot the best way to achieve senior leadership's goals and Western's Roadmap. The summit provided an opportunity for the councils to coordinate their expertise.

Senior Vice President and Chief Information Officer Dawn Roth Lindell speaks to Western's council members during the introductory session of Western's inaugural Leadership Council Summit, July 7, 2015, in Loveland, Colorado.

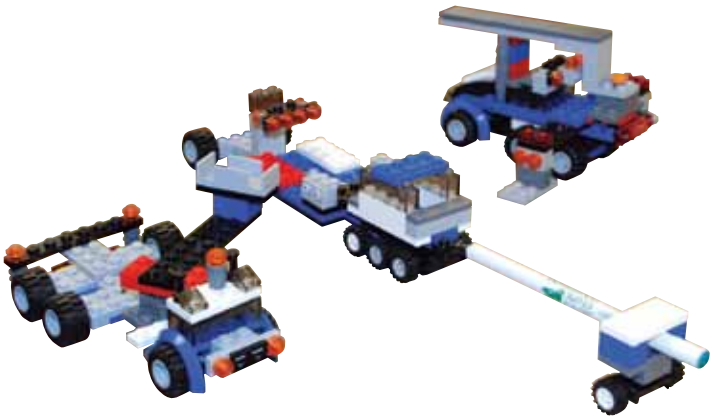
The councils, along with their supporting committees and teams, are positioned to facilitate communication between management and staff. They serve as the link between strategy and implementation and are responsible for communicating both up and down the organization. As the electric utility industry evolves, the councils play a significant role in maintaining our ability to operate effectively toward delivering on Western's mission. The summit brought together all the councils to ensure laser-beam focus on operations and implementation strategies, creating an opportunity for strategic and robust conversations about issues that have cross-council implications, such as preparing to join the Southwest Power Pool.

Western's leadership councils

- Financial Leadership Council
- Information Technology Council
- Power Marketing Management Council
- Power System Operations Council
- Western Maintenance Management Council

Developing future Craft leaders

Furthering its commitment to develop and retain a high-performing workforce, Western launched its Craft Leadership Development Program in January 2015. Our Craft community performs highly specialized work directly supporting our mission. Offering a program designed to prepare employees for the foreman role—a key leadership position in the field—is a great added value to Western's workforce.



Participants in Western's Craft Leadership Development Program worked in small groups, Jan. 27, 2015, building trucks as part of a communication exercise in Lakewood, Colorado.

Designed as a two-year program, the CLDP ensures a well-rounded cadre of journeymen by offering training on 13 leadership competencies, public speaking and presentation opportunities, mentorship, individual development opportunities and exposure to the bigger picture of Western's business.

In January 2015, CLDP participants and steering committee members met in Lakewood, Colorado, to kick off the program. They came together again in June at the office in Watertown, South Dakota, to tour the Operations Office, receive communications training and learn about Western's new transmission line inspection tool and how it will improve asset management.

Streamlining processes, avoiding unnecessary cost-drivers

Western works diligently to become more efficient and to make sure that our processes keep improving across the organization. To continue operating among the lowest-cost power providers across our markets, we recognize the importance of operating as efficiently as possible. To that end, Western launched a Continuous Process Improvement Program in FY 2014 to identify cost-avoidance strategies for improving processes and streamlining operations.

$400,395
realized in cost avoidance

In April 2015, Western's Continuous Process Improvement Program hosted its first Lean Six Sigma Green Belt training, demonstrating a commitment to efficiency by investing in training for 12 employees to help the organization rethink processes for efficacy. Throughout the year, employees who hold a Green Belt led projects to simplify processes and improve effectiveness in an effort to both offset the effects of rising costs and reduce staff time.

These projects, along with other process improvement projects—on both small and large scales—created headroom to afford necessary human and other capital investments. In FY 2015, Western realized $400,395 in cost avoidance—a 149-percent return on investment of the CPI program. These redirected costs free up resources to respond to changing demands and growth in other areas.

Process improvement projects summary

Projects completed

7

Duration of projects

4 days – 6 months

CPI program return on investment

149%

Lean Six Sigma Green Belt certification projects

Certification projects spanned each of Western's regions and touched numerous functions and organizations throughout the organization, from Human Resources to Finance, from Security to Procurement. Some of the processes Western's newest Green Belts are taking on include:

- *Federal Register Notice* review process
- External committee participation
- Proper use of work orders
- Accounts Payable invoicing
- Accounts Receivable accruals
- Recruitment incentive approval
- Cap-and-Trade inventory
- Construction-to-asset transition
- CRSP MC Power billing
- Adverse action process
- Heavy equipment scheduling

SPOTLIGHT

INNOVATIVE THINKING

Granting, removing employee network access

Fourteen employees gathered for four days in May 2015 to develop a process for granting and removing employee access to Western's network by developing a single, electronic workflow tool to be used Westernwide. Once implemented, this improvement will result in $140,000 in cost avoidance over the next three years by creating a baseline process that will be used to grant and remove access to other Western systems.

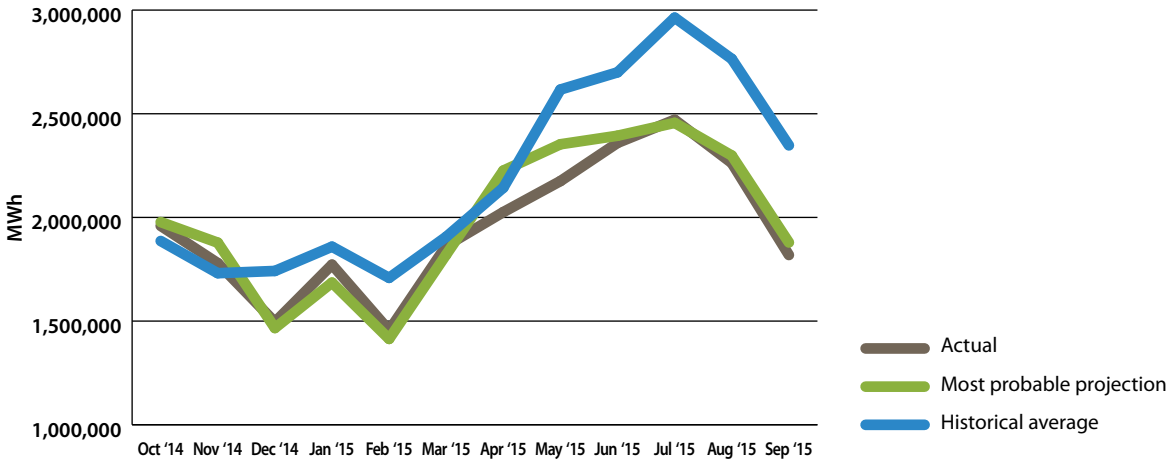
Continuing to make good on our promise while facing growing industry demands requires a new way of

OPERATING.

Western is dedicated to its forward-thinking approach to operations. The organization looks ahead and anticipates how best to prepare for what is coming. So much of our ability to operate efficiently and effectively amid this changing energy industry is rooted in our aptitude to cultivate strategic and mutually beneficial partnerships—to work well with our neighbors.

Fiscal Year 2015 presented many opportunities to build relationships that enhanced trust, operational effectiveness and business opportunities for and between Western and its partners. Being open to new ways of operating is essential to our second critical pathway—Establishing Mutually Beneficial Partnerships—and positioning Western to deliver on its promise during increasingly complex industry times.

FY 2015 Hydropower Generation Average vs. Projected vs. Actual



Water matters

One of the biggest challenges for the energy industry—especially for those who deal in hydroelectric power—is water variability due to intermittent drought and flooding. Drought in the desert and coastal West was a driving factor in FY 2015.

Lake Powell and Glen Canyon Dam, the largest hydropower facility in the Salt Lake City Area/Integrated Projects, finished FY 2015 at a water level elevation at 116 feet above the minimum generation level, which is only 51 percent of reservoir storage capacity. Water conditions in Western's Rocky Mountain region had all appearances of being just as dry as other parts of the western U.S. until a "miracle May" of heavy precipitation and low temperatures resulted in an above-average water year. Drought was a factor for the Sierra Nevada region where California snowpack reached a historic low during the spring, which is typically a time of plenty.

Despite drought and below-average conditions in FY 2015, Western employed strategies and practices to help offset purchase power costs.

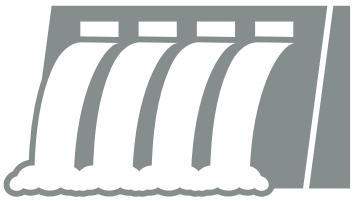
Net generation

23,437

gigawatt-hours

88.9

percent of average



SPOTLIGHT

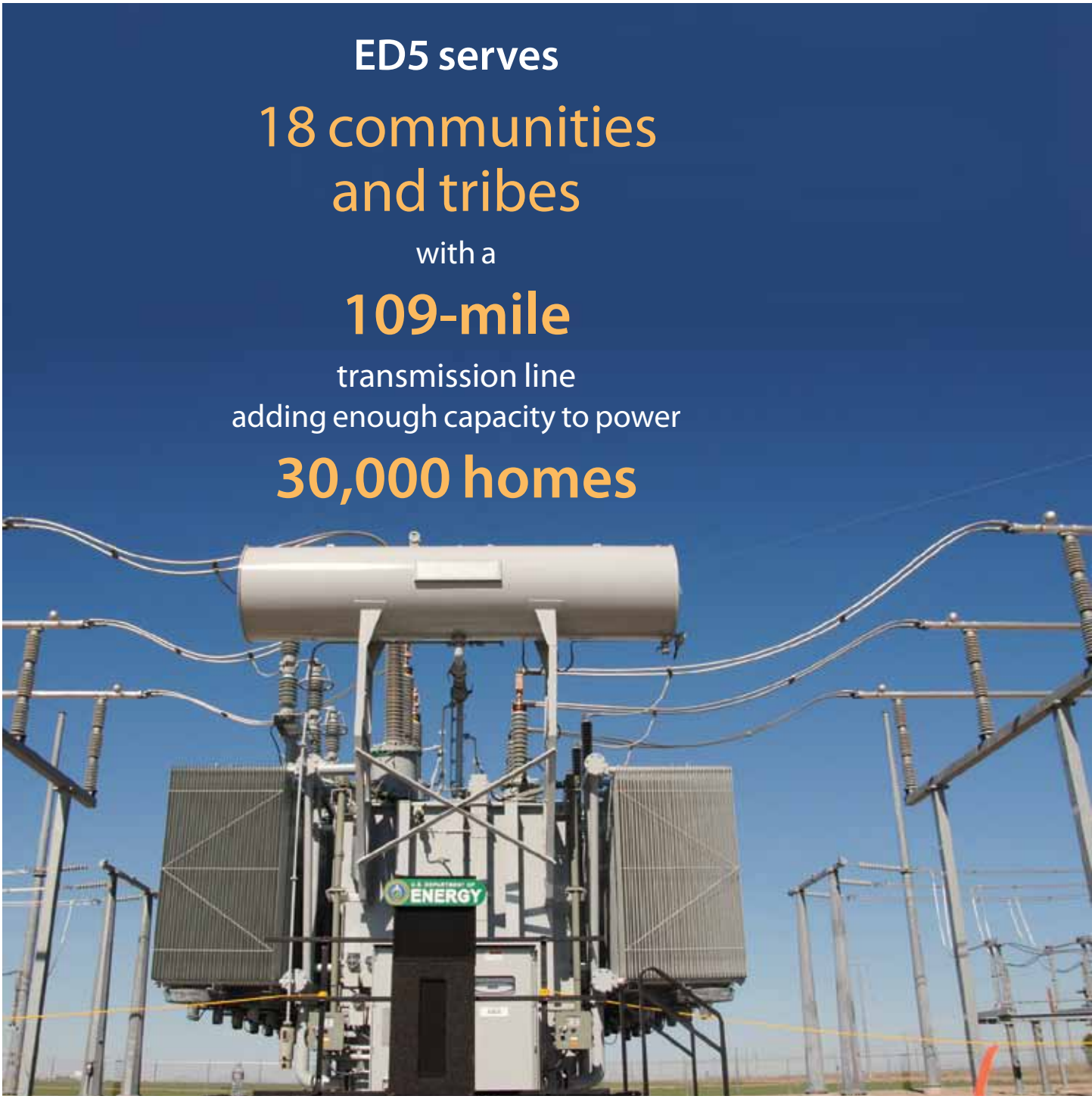
INNOVATIVE OPERATING

Proactive strategy offsets drought impact

Western's Sierra Nevada region bases power purchase strategies on term purchases of 70-75 percent of anticipated power needs, and leaves the remainder to be purchased on the day-ahead and real-time markets after project pumping and generation have been scheduled. SN's proactive risk management power purchase strategies allow them to take advantage of lower market prices and hedge power purchases to help ease the burden placed on our customers due to the drought.

ED5 increases access to affordable energy in Southwest

The Electrical District 5-to-Palo Verde Hub transmission line began commercial operation Jan. 10, 2015, after energization of the final transformer at the Electrical District 5 Substation. The project directly helps 18 communities and tribes. It also increases transmission capacity to deliver renewable energy, primarily solar, to consumers in Arizona, southern Nevada and southern California, adding enough capacity to power 30,000 homes. The 109-mile transmission line, which offers 264 megawatts of transmission capacity, was completed on time and within budget. It connects a renewable-rich zone south of Phoenix, Arizona, with the Palo Verde market hub, a major electrical trading hub in the western U.S.

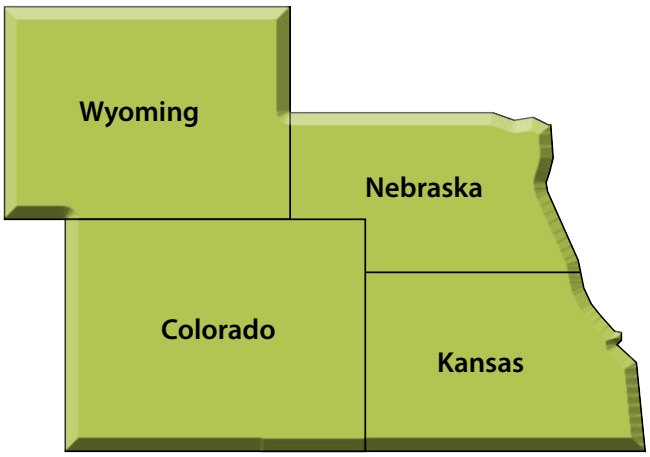


A new transformer is energized in January 2015 at Electrical District No. 5 Substation in Pinal County, Arizona. This transformer fulfilled the final capacity commitment of the Electrical District 5-to-Palo Verde Hub Project.

Remarketing efforts secure, expand affordable access to power

In 2014, Western completed the Loveland Area Projects 2025 Power Marketing Initiative, a program benefitting 125 preference power customers across a four-state area of Nebraska, Kansas, Wyoming and Colorado. In FY 2015, Western's Rocky Mountain region began executing the new firm power contracts based on that PMI; about 20 remain to complete. Current contracts expire Sept. 30, 2024, and the new firm power contracts will expire on Sept. 30, 2054, giving customers 30 additional years of low-cost, clean reliable federal hydropower.

In 2015, Western published the final allocations for the post-2017 remarketing of the Boulder Canyon Project, providing for marketing and delivery of the electric generation at Hoover Dam. This will provide low-cost, renewable, reliable federal hydropower to Native American tribes and other preference customers in Arizona, California and Nevada. As a result of this remarketing effort, 59 new customers will receive power generated at Hoover Dam, including 23 allocations to tribal entities. Throughout FY 2015, Western's Desert Southwest region developed its new electric service contracts and conducted a series of customer meetings, including meetings specifically for tribal customers.



LAP 2025 PMI
will benefit
125
preference power customers across a
4-state area

Government gone solar: Facilitating Navy's renewable goals

In 2014, Western issued a request for proposal on behalf of the Department of the Navy to enter into an agreement for off-base renewable energy generation to power a portion of 14 California Navy installations. After months of negotiations, Western selected the Sempra U.S. Gas & Power Mesquite Solar 3 project to be constructed in Arizona. On Aug. 20, 2015, Western, together with the Navy and Sempra U.S. Gas & Power, celebrated the purchase power agreement at a signing ceremony hosted at Naval Base Coronado in California. All of the energy produced by Mesquite Solar 3—about 150 MW—will be used to support the Navy's energy needs, renewable requirements and goals for the next 25 years. It is projected the purchase agreement Western helped facilitate will save the Navy about $90 million over the life of the project.

Mesquite Solar 3
will produce
150 MW
for 14 Navy installations and save the Navy about
$90 million

Western's Senior Vice President and Desert Southwest Regional Manager Ron Moulton, Navy Secretary Ray Mabus and Sempra U.S. Gas & Power CEO Patti Wagner pose with the commemorative solar panel after signing it, Aug. 20, 2015.

Continuing to make good on our promise while facing growing industry demands requires a new way of

PLANNING.

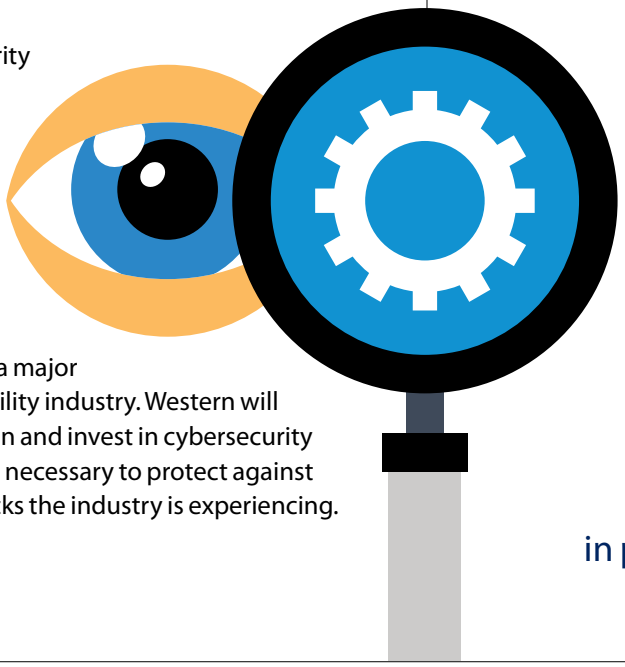
Planning is the critical link between thinking and operating; it is what ensures our ability to deliver on our promise to fulfill our mission. Sound, effective planning overlaps and unites the first three critical pathways of Western's Roadmap, and bridges the present and future.

The rapidly changing energy industry landscape demands that our planning be both visionary and practical. Coordination and cooperation with our customers and neighbors in the industry is essential for the detailed studies required to ensure our planning results in effectively evolving our services.

Planning for secure future

Western is proactively assessing the security of its transmission stations, substations and primary control centers in advance of new reliability standards by assessing all physical risks at our critical infrastructure, including natural disasters and criminal activity. This planning will not only ease the transition to new Critical Infrastructure Protection standards, but also enhance the security of our people and our facilities.

The cybersecurity landscape is changing with a shift from attacks breaching sensitive data to those that target critical infrastructure, a major threat to the utility industry. Western will continue to plan and invest in cybersecurity enhancements necessary to protect against increased attacks the industry is experiencing.



675% increase
in reported cybersecurity incidents over the past five years

200% increase
in needed internet capacity across Western

150% increase
in enterprise storage over three years

154% increase
in physical security attacks in the past year

Asset Management outlines 10-year focus

Western's efforts to improve asset management have matured into the Transmission Asset Management Program with the goal to integrate Asset Management principles into Western's day-to-day business practices. The program is developing a data-driven, 10-year Strategic Asset Management Plan to incorporate all aspects of asset management, including cost-benefit analysis and stakeholder needs and expectations to support the Strategic Roadmap. By the end of FY 2015, the program developed two years of asset risk reports on the health of two critical assets. These reports and analysis will provide risk-based information to senior managers, customers and stakeholders that will assist in capital investment decisions.

Streamlined process protects environment, develops wind energy

Western and the U.S. Fish and Wildlife Service are implementing a streamlined and standardized environmental review process for proposed wind projects that want to interconnect to the Upper Great Plains regions' transmission facilities in Iowa, Minnesota, Montana, Nebraska, North Dakota and South Dakota. Under the Upper Great Plains Programmatic Environmental Impact Statement, wind project developers have the option to "tier off" their project-specific EIS from the comprehensive and universal programmatic EIS and biological opinion. This will accelerate environmental review time and expedite wind energy projects toward construction in this windy area of the country. The record of decision was published in the *Federal Register* on Aug. 26, 2015.

SPOTLIGHT

INNOVATIVE PLANNING

Numerous wind projects, totaling more than 650 megawatts and already waiting in the interconnection queue, will be able to take advantage of the new process. The Programmatic EIS supports the President's Climate Action Plan by potentially accelerating clean energy permitting, helping deploy clean energy and demonstrating Department of Energy and Western as leaders in clean energy development.

Preparing for Southwest Power Pool

Western continues to keep a steady eye on the evolution and maturation of markets. After more than 20 years of studies and planning to deal with transmission issues in the Upper Great Plains, Western became the first federal power marketing administration to become a full regional transmission organization member and part of an organized market. To prepare for the move and complete this major milestone, Western's Upper Great Plains region and the other Integrated System owners, Basin Electric Power Cooperative and Heartland Consumers Power District, formed an executive steering committee with Southwest Power Pool, as well as several transition teams. The teams, which included more than 30 Western employees, looked at areas such as metering, communications, computer systems and market trials to prepare our systems and processes to mesh seamlessly and ensure the reliability of the Bulk Electric System on the Oct. 1, 2015, integration.

Anticipating renewable development

Throughout the energy industry, the push is on to develop new sources of renewable energy. Having adequate transmission has always been a limiting factor in that development. Western continues to plan, together with our customers and partners, transmission system upgrades to accommodate new renewable resources coming online.

The American Recovery and Reinvestment Act of 2009 authorizes Western to borrow money from the Department of the Treasury to develop new or upgraded transmission lines and related facilities that facilitate the delivery of power generated by renewable energy resources. Western manages the $3.25 billion borrowing authority through its Transmission Infrastructure Program.

The Electrical District 5-to-Palo Verde Hub transmission line began commercial operation Jan. 10, 2015. It is the second project to be successfully completed under TIP.

In November, Western signed the Final Environmental Impact Statement for the proposed Southline project, a 360-mile electric transmission line proposed to run from New Mexico to Arizona, moving another TIP project closer to completion.

In June 2014, the Electrical District 5 Substation stood 99-percent complete.

FY 2015 OPERATIONAL HIGHLIGHTS

Western's commitment to fulfilling its mission is evident in everyday actions by employees throughout the organization. Whether solving a problem, improving a process or providing technical expertise, employee efforts reflect the promise we make to our customers and, ultimately, the nation. The following accomplishments from Fiscal Year 2015 are just a snapshot of the many ways Western strives for excellence, engages in strategic partnerships and evolves its services. Collectively, these achievements help us remain well positioned to deliver on our mission while the industry flexes to respond to variable resources and meet the needs and demands of consumers.

FLYING INTO ENERGY FRONTIER: CREWS EXPAND LONG-LINE EXPERTISE

Sierra Nevada region line crews used long-line maintenance practice to replace glass insulators with composite polymer insulators on the energized Trinity-to-Carr 230-kilovolt line in May 2015. In long-line maintenance, a helicopter carries equipment and linemen to the top of the towers, saving time and money while reducing environmental impacts to access the towers.

Sierra Nevada linemen Ryan Mumma and James Hill are carried from a structure to the staging area, Sept. 1, 2015.

TWO REGIONS PASS (AUDIT) WITH FLYING COLORS

Western's Sierra Nevada and Rocky Mountain regions successfully completed intensive North American Electric Reliability Corporation reliability compliance audits in May and September 2015, respectively. About 50 employees in each region supported the audits, which reviewed both Operations and Planning and Critical Infrastructure Protections requirements. RM completed data requests on time, providing more than 1,000 documents to the auditors for review. The auditors presented an informal briefing commenting on RM's professionalism and demonstration of a culture of compliance. Auditors had zero findings during SN's audit.

Data requests completed

Rocky Mountain – 57

Sierra Nevada – 60

Electricians use fall protection equipment to connect to the top of a transformer, during annual safety training at Midway Substation, June 4, 2015.

FALL PROTECTION INNOVATIONS POSITION WESTERN AS INDUSTRY LEADER

Western's highest goal is to safely and securely deliver on our promise to fulfill our mission. There are known hazards working in the electric utility industry; operating safely is how we can protect the health and welfare of our hard working men and women.

Fall protection is a critical component of our day-to-day promise to keep electricity flowing across our transmission system. Western has been actively involved in developing a Fall Protection training program since the 1990s, and our Fall Protection Committee continues to evolve to ensure our employees make it home safely at the end of each day.

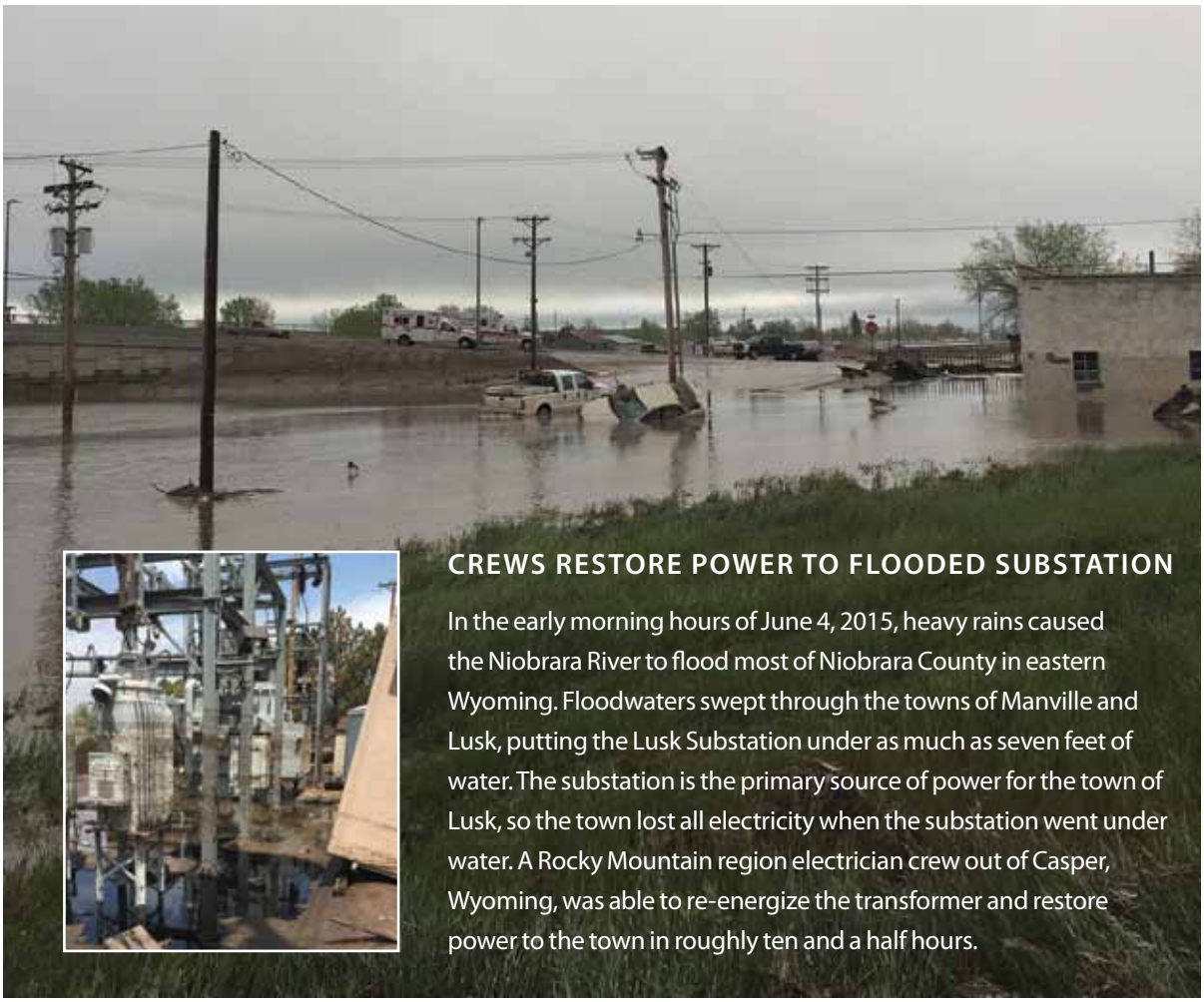
Revisions to the Occupational Safety and Health Administration's standards for fall protection on transmission structures, including poles and towers, became effective April 1, 2015. Western's proactive approach to safety regarding implementation of the new OSHA standards resulted in Western reaching 100-percent compliance before the deadline. The Fall Protection Committee developed new curricula and, in February, trained each of its 25 line crews in the new standards through both classroom instruction and hands-on experience.

Western led the industry's response to the new OSHA guidelines by breaking new ground working with vendors to develop equipment designed specifically for the power industry. Being a leader in fall protection highlights our continued drive toward business, technology and organizational excellence by leveraging the knowledge and experience of our crews and the engagement of our internal and external partners.

PROMISING SAFETY: FOUR YEARS AND COUNTING ...

Western's Desert Southwest region kicked off FY 2015 by achieving an impressive safety milestone, celebrating four years with no lost-time accidents. DSW employees, both in the office and in the field, continued the record throughout FY 2015 and closed the year with 1,825 days without losing a workday due to accident or injury. DSW's safety record is not only impressive throughout the federal government, but throughout the electric utility industry as well.

Although Western's commitment to safety is driven by senior managers, it is employees in the office and in the field who demonstrate safe practices day in and day out. The culture of safety, especially in DSW, is evident through communication, through actions and through consistent and repeated practices.



CREWS RESTORE POWER TO FLOODED SUBSTATION

In the early morning hours of June 4, 2015, heavy rains caused the Niobrara River to flood most of Niobrara County in eastern Wyoming. Floodwaters swept through the towns of Manville and Lusk, putting the Lusk Substation under as much as seven feet of water. The substation is the primary source of power for the town of Lusk, so the town lost all electricity when the substation went under water. A Rocky Mountain region electrician crew out of Casper, Wyoming, was able to re-energize the transformer and restore power to the town in roughly ten and a half hours.

Flooding of Niobrara River impacts substation and power to the town of Lusk, Wyoming, June 4, 2015.

NEW TOOL DOCUMENTS TRANSMISSION STRUCTURE CONDITION

Geographic Information System technicians field test a new application that will standardize how Western assesses and tracks transmission line structure condition across 15 states. The field test occurred outside Loveland, Colorado, on a Western H-frame transmission line, Jan. 13-14, 2015.

In January 2015, about 30 linemen and subject matter experts gathered in Loveland, Colorado, to test a new field inspection tool that can document the condition of Western's more than 177,000 transmission structures and components. With great effort, the team integrated the information captured into Geographic Information Systems. Additionally, extensive work was done to ensure that the tool can meet each region's need and capture data in a consistent way. The tool strengthened Western's Transmission Asset Management program, and when final phases of the project were completed later in the year, crews and support staff gained access to a comprehensive maintenance information system.

ELECTRIFYING HISTORY: CONVERTER STATION WINS AWARD

On May 21, 2015, the Institute of Electrical and Electronics Engineers awarded the IEEE Historical Milestones Dedication plaque for the conversion technology at Western's Virginia Smith High-Voltage Direct-Current Converter Station during an event at Western's Headquarters in Lakewood, Colorado. The station connects the Eastern and Western grid. The prestigious IEEE Milestone recognizes significant technical achievements. The Institute has approved fewer than 100 awards in the electric power field. About 130 people, including current and former Western, Siemens and IEEE employees were at the event. Some came from as far as Germany to attend.

RIVER FORGES RELATIONSHIPS

The mutual benefits of partnership were on display in July 2015 when Western staff joined stakeholders of many backgrounds and perspectives in floating the middle Colorado River. The trip provided participants the opportunity to discuss each other's interests in managing the Colorado River and operating Glen Canyon Dam. They floated downstream from Glen Canyon Dam through the Grand Canyon—the actual environment discussed and affected by the dam and the Long Term Experimental and Management Plan. Tribal partners guided the trip, which was sponsored by the Glen Canyon Adaptive Management Work Group.

The Bureau of Reclamation owns and operates Glen Canyon Dam, while Western schedules the hydropower facility's power generation and markets it to preference customers. In turn, some of the revenues from the power program support the environmental work done in the river system.

Western employees stand above the Colorado River during a July 23, 2015, trip down the river hosted by tribal partners.

TRANSFORMER SHARING STRENGTHENS ENERGY SECTOR

In December 2014, Western joined more than 50 other utilities participating in the Spare Transformer Equipment Program. The program strengthens the electric sector's ability to restore the nation's transmission system more quickly in the event of a terrorist attack. Each participating utility is required to maintain and, if necessary, acquire a specific number of transformers in an effort to increase the industry's inventory of spare transformers and streamline the process of transferring transformers to affected utilities during a qualifying event.

FY 2015 PEOPLE AND DOLLARS

In Fiscal Year 2015, Western sold more than 31 billion kilowatt-hours of energy. How Western effectively applies and manages its resources—a workforce of 1,441 federal employees and $1 billion program—is central to its success in delivering on its mission and operating safely, securely and reliably. Below is an illustration of where Western's people and dollars were deployed in FY 2015.

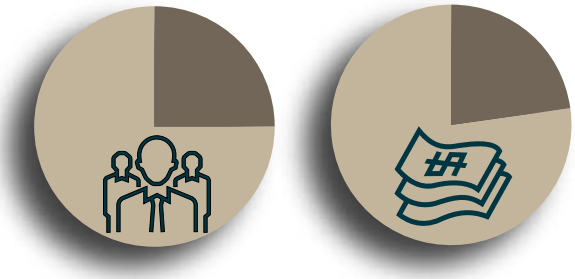
Almost half of Western's employees supported the reliability of the electric grid, and the largest percentage of funds was attributed to the agency's marketing function, which includes purchase power and wheeling.

These figures do not include earmarks, reimbursable activity or the resources assigned to the Transmission Infrastructure Program.

Reliability

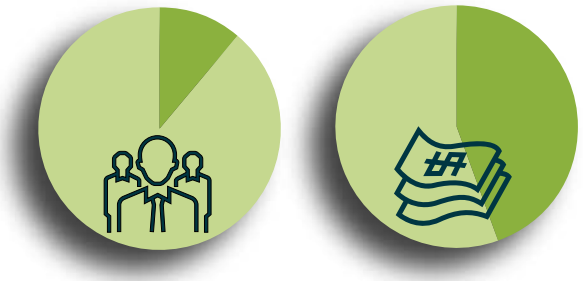
657 people and **24 percent**
of dollars invested in maintenance and related areas

Delivery



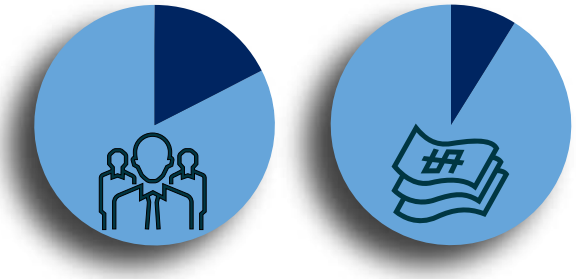
360 people and **22 percent**
of dollars dedicated to power operations and engineering areas

Marketing
including purchase power and wheeling



162 people and **45 percent**
of dollars committed to power marketing areas

Cost-based
and related services



262 people and **9 percent**
of dollars applied to support the mission

FY 2015 IRP SUMMARY

Western's Integrated Resource Planning requirements outlined in Section 114 of the Energy Policy Act of 1992, gives customers several options to comply with the law's energy portfolio planning clauses. Under Western's requirements, customers must submit new integrated resource plans every five years and also provide annual updates, either individually or cooperatively, recognize the changes occurring in the utility industry and our customer's varying size and structure. Customers who meet specific criteria are also allowed to choose from three additional IRP reporting options—small customer plans, minimum investment reports or energy efficiency and renewable energy reports—instead of a full IRP. All firm power customers have submitted one of these options.

In FY 2015, Western received

- 103 IRPs from individual customers
- 55 plans from cooperatives
- 27 minimum investment reports
- 70 small customer plans

The top 5 demand-side management activities are:

- Lighting
- Air conditioning upgrades
- Rebates
- Audits
- Motors/adjustable speed drives

The top 5 renewable energy resource choices are:

- Solar
- Wind
- Small hydro
- Biomass/biogas
- Geothermal

FY 2015 Customer IRP Accomplishments (unaudited)

Item	CRSP MC	DSW	RM	SN	UGP	Totals
DSM[1] savings (kW)	53,282	524,697	4,662,287	43,530	1,041,978	6,325,774
DSM savings (kWh)	41,148,378	672,243,810	596,293,855	267,071,174	284,272,176	1,861,029,393
DSM expenditure ($)	14,390,360	24,420,424	25,548,738	27,899,856	39,947,708	132,207,086
DSM deviations[2] ($)	449,010	-6,007,418	5,880,987	4,428,647	9,660,336	14,411,562
Renewables (kW)	1,017,916	330,660	1,067,797	2,642,753	38,583,002	43,642,128
Renewables (kWh)	1,318,773,360	2,234,397,650	3,743,383,408	6,733,382,733	6,338,465,732	20,368,402,883
Renewable expenditure ($)	42,368,001	62,620,783	142,262,484	181,011,204	90,472,734	518,735,206
Renewable program types	Solar, wind, small hydro, biomass/gas, tags	Solar, biomass/gas, wind, geothermal, small hydro	Wind, small hydro, solar, biomass/gas green/white tags	Solar, small hydro, biomass/gas, wind, geothermal	Wind, biomass/gas, solar, green/white tags, small hydro	Solar, wind, small hydro, biomass/gas geothermal, tags
Top 5 most frequent DSM activities	Lighting, rebates, load management, weatherization incentives/ assistance	Lighting, AC, rebates, ASD3 motors, load management, audits, refrigerator/ freezer	Lighting, audits, load management, AC, water heating, audits, rebates	Lighting, AC, refrigerator/ freezer, audits, ASD motors, load management, rebates	Lighting, AC, rebates, audits, refrigerator/ freezer, load management, ASD motors	Lighting, AC, rebates, audits, ASD motors, load management, refrigerator/freezer
Top 5 renewable energy activities	Solar, wind, small hydro, biomass, biogas, tags	Solar, biomass, biogas, small hydro, wind, geothermal	Wind, small hydro, solar, biomass, biogas, green/ white tags	Solar, small hydro, biomass, biogas, wind, geothermal	Wind, biomass, biogas, solar, green/ white tags, small hydro	Solar, wind, small hydro, biomass, biogas, geothermal, green/white tags
Top 3 customer reported trends	Utility scale renewables, residential renewables, net metering	Renewables integration, regulations, rate schedules	Increased renewables integration in power purchase agreements; budgets, maintenance and reliability are a priority; financing options	Water-energy issues, renewable energy technology and integration	EPAct, fossil fuel decommissioning, cost of renewable energy, wind, solar being considered	All regions vary, but renewables integration is common
# of IRPs from customers	24	30	23	12	14	103

[1] DSM refers to demand-side management activities the utility conducts to change customer energy use.
[2] Deviations are any difference from the customer's integrated resource plan.
[3] ASD refers to adjustable speed drivers.

FINANCIAL DATA

INDEPENDENT AUDITORS' REPORT

The Administrator of Western Area Power Administration and the U.S. Department of Energy Office of the Inspector General:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Western Federal Power System (the System), which comprise the combined balance sheets as of September 30, 2015 and 2014, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years then ended, and the related notes to the combined financial statements. As described in note 1(a) to the combined financial statements, the combined financial statements include the Western Area Power Administration (Western), a component of the U.S. Department of Energy, and the hydroelectric power generating functions of the U.S. Department of the Interior, Bureau of Reclamation; the U.S. Army Corps of Engineers; and the U.S. Department of State, International Boundary and Water Commission (the generating agencies) for which Western markets and transmits power.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted or audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Western Federal Power System as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the System's basic combined financial statements as a whole. The supplementary information in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The supplementary information in schedules 1 through 4 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in schedules 1 through 4 is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

KPMG LLP

Denver, Colorado
March 28, 2016

Combined Balance Sheets

September 30, 2015 and 2014 (In thousands)

	2015	2014
Assets		
Completed utility plant	$7,585,807	7,322,963
Accumulated depreciation	(4,073,138)	(3,941,868)
Net completed plant	3,512,669	3,381,095
Construction work in progress	406,611	436,346
Net utility plant	3,919,280	3,817,441
Cash	1,516,908	1,398,319
Restricted cash (note 1(g))	1,066,864	997,871
Accounts receivable, net	159,202	162,388
Regulatory assets	147,596	144,383
Other assets	103,045	109,322
Total assets	**$6,912,895**	**6,629,724**
Total Liabilities and Capitalization		
Liabilities:		
Long-term liabilities	$202,489	186,031
Customer advances and other liabilities	237,473	245,497
Deferred revenue (note 1(f))	115,837	119,904
Accounts payable	68,361	82,426
Environmental cleanup liabilities	13,546	15,015
Total liabilities	**637,706**	**648,873**
Capitalization (note 6):		
Payable to U.S. Treasury	1,565,161	1,563,963
Accumulated net revenues	4,710,028	4,416,888
Total capitalization	**6,275,189**	**5,980,851**
Commitments and contingencies (notes 6 (c), 9, 10, and 11)		
Total liabilities and capitalization	**$6,912,895**	**6,629,724**

See accompanying notes to combined financial statements.

Combined Statements of Revenues and Expenses

Years ended September 30, 2015 and 2014 (In thousands)

	2015	2014
Operating revenues:		
Sales of electric power	$910,662	932,533
Transmission and other operating revenues	435,144	425,290
Total operating revenues	**1,345,806**	**1,357,823**
Operating expenses:		
Operation and maintenance	549,136	529,572
Purchased power	187,013	333,145
Purchased transmission services	78,947	73,325
Depreciation	140,468	136,840
Administration and general	67,989	62,633
Total operating expenses	**1,023,553**	**1,135,515**
Net operating revenues	**322,253**	**222,308**
Interest expenses:		
Interest on payable to U.S. Treasury (note 1(k))	49,550	188,016
Allowance for funds used during construction	(16,473)	(13,330)
Net interest on payable to U.S. Treasury	33,077	174,686
Interest on long-term liabilities	7,236	7,183
Net interest expense	**40,313**	**181,869**
Net revenues	**$281,940**	**$40,439**

See accompanying notes to combined financial statements.

Combined Statements of Changes in Capitalization

Years ended September 30, 2015 and 2014 (In thousands)

	Payable to U.S. Treasury	Accumulated net revenues (deficit)	Total capitalization
Total capitalization as of September 30, 2013	**$5,099,301**	**(154,510)**	**4,944,791**
Additions:			
Congressional appropriations	568,051	47,629	615,680
Reclamation fund transfer (note 6(c))	—	4,483,330	4,483,330
Transfers of property and services, net	35,420	—	35,420
Interest	188,016	—	188,016
Total additions to capitalization	**791,487**	**4,530,959**	**5,322,446**
Deductions:			
Payments to U.S. Treasury	(841,366)	—	(841,366)
Reclamation fund transfer (note 6(c))	(3,485,459)	—	(3,485,459)
Total deductions to capitalization	**(4,326,825)**	**—**	**(4,326,825)**
Net revenues for the year ended September 30, 2014	**—**	**40,439**	**40,439**
Total capitalization as of September 30, 2014	**1,563,963**	**4,416,888**	**5,980,851**
Additions:			
Congressional appropriations	558,527	11,200	569,727
Interest	49,550	—	49,550
Total additions to capitalization	**608,077**	**11,200**	**619,277**
Deductions:			
Payments to U.S. Treasury	(600,032)	—	(600,032)
Transfers of property and services, net	(6,847)	—	(6,847)
Total deductions to capitalization	**(606,879)**	**—**	**(606,879)**
Net revenues for the year ended September 30, 2015	**—**	**281,940**	**281,940**
Total capitalization as of September 30, 2015	**$1,565,161**	**4,710,028**	**6,275,189**

See accompanying notes to combined financial statements.

Combined Statements of Cash Flows

Years ended September 30, 2015 and 2014 (In thousands)

	2015	2014
Cash flows from operating activities:		
Net revenues	**$281,940**	**40,439**
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation	140,468	136,840
Net interest on payable to U.S. Treasury	33,077	174,686
Loss on disposition of assets	5,216	2,632
Unfunded postretirement benefits	17,940	20,923
Bill credits applied against long-term liabilities	(18,208)	(15,521)
Amortization of regulatory assets	3,522	2,676
Change in unfunded FECA liability	508	(1,263)
(Increase) decrease in assets:		
Accounts receivable, net	3,186	6,546
Regulatory assets	(10,994)	(16,544)
Other assets	(3,136)	(8,896)
Increase (decrease) in liabilities:		
Customer advances and other liabilities	(3,997)	(966)
Deferred revenue	(4,067)	119,904
Accounts payable	(14,065)	(9,783)
Environmental cleanup liabilities	(1,717)	(231)
Net cash provided by operating activities	**429,673**	**451,442**
Cash flows from investing activities:		
Investment in utility plant	(182,888)	(200,999)
Net cash used in investing activities	**(182,888)**	**(200,999)**
Cash flows from financing activities:		
Congressional appropriations	536,419	605,504
Payments to U.S. Treasury	(600,032)	(841,366)
Reclamation fund transfer (note 6(c))	—	997,871
Proceeds from long-term liabilities	285,718	102,142
Principal payments on long-term liabilities	(281,308)	(68,692)
Net cash provided by (used in) financing activities	**(59,203)**	**795,459**
Net increase in cash	**187,582**	**1,045,902**
Cash and restricted cash, beginning of year	**2,396,190**	**1,350,288**
Cash and restricted cash, end of year	**$2,583,772**	**2,396,190**
Cash paid for interest	$36,607	177,422
Supplemental cash flow information:		
Capitalized interest	16,473	13,330
Transfer of construction work in progress to completed plant	198,207	168,107
Plant acquired by long-term financing	30,256	—
Changes in the allocation and assignment of generating agency balances to hydroelectric power generating function affecting net utility plant	(22,078)	(24,110)

See accompanying notes to combined financial statements.

Western Area Power Administration
Notes to Combined Financial Statements
September 30, 2015 and 2014

(1) Basis of Presentation and Summary of Significant Accounting Policies

(a) Principles of Combination

The Western Federal Power System (the System) combined financial statements include the combined financial position, results of operations and cash flows of the Western Area Power Administration (Western), an agency of the U.S. Department of Energy (DOE), and the hydroelectric power generating functions of the U.S. Department of the Interior (DOI), Bureau of Reclamation (Reclamation); the U.S. Department of Defense (DOD), Army Corps of Engineers (Corps); and the U.S. Department of State (State), International Boundary and Water Commission (IBWC) (collectively referred to as the generating agencies). For the generating agencies, only the individual power systems for which Western markets and transmits hydroelectric power are included in the combined financial statements. Western, a Federal power marketing administration, markets and transmits hydroelectric power generated from these power systems, which are operated and maintained by the generating agencies, throughout 15 western states.

The combined financial statements contain three types of business activities: the hydroelectric power systems of Western and the generating agencies; the Transmission Infrastructure Program of Western (TIP); and other activities of Western. Hydroelectric power systems activity represents power activity of Western and the generating agencies that are generally reimbursable for purposes of repayment to the U.S. Treasury. These amounts include project use energy.

TIP activity represents Western activity related to Section 402 of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Public Law No. 111-5, which was signed into law on February 17, 2009. Section 402 of the Recovery Act added Section 301 to the Hoover Power Plant Act of 1984 (Public Law No. 98-381) giving Western's Administrator the discretion to borrow up to $3.25 billion from the U.S. Treasury for the purposes of (1) constructing, financing, facilitating, planning, operating, maintaining, or studying construction of new or upgraded electric power transmission lines and related facilities that have at least one terminus within the area served by Western and (2) delivering or facilitating the delivery of power generated by renewable energy resources constructed or reasonably expected to be constructed after the Recovery Act was enacted.

Other activities represent those Western activities that are not reimbursable through the rate-setting process. This primarily consists of funds received from the Federal Communications Commission (FCC) to change Western's bandwidth (referred to as the Spectrum Relocation Fund). The Spectrum Relocation Fund paid for the cost of Western to relocate its bandwidth when the FCC sold the former bandwidth. The remaining activity primarily consists of agreements Western has with Federal and non-Federal customers to provide services on a fee basis. The majority of the operating revenues and expenses are a result of services provided through specific agreements with customers, and are excluded from the rate-making process.

The combined financial statements include project use energy. Project use energy is the amount of hydroelectric energy required to deliver project water to project water customers and other project-specific authorizations such as irrigation and fish and wildlife needs. Project use energy capital costs may be reimbursed through the power rates, through the generating agencies' water rates, depending on the agreement with the generating agency, or may be deemed nonreimbursable (note 6(a)). Project use capital costs represent an allocation of total power capital assets necessary to generate and transmit hydroelectric power sufficient for project use needs. Although some project use capital costs may not be recovered through the power rates, the activity is included in the combined financial statements because it is directly related to hydroelectric power generation and transmission and is necessary to reflect the full financial activity of the System.

The combined financial statements are prepared following accounting principles generally accepted in the United States of America (U.S. GAAP). The combined financial statements also reflect Federal Energy Regulatory Commission (FERC) regulations, FERC's prescribed uniform system of accounts for electric utilities and DOE's accounting practices.

For purposes of financial reporting, the hydroelectric power facilities and related operations of the System are considered one entity. All material intra-entity balances and transactions have been eliminated from the combined financial statements.

(b) Allocation of Costs to Hydroelectric Power

Certain amounts included in the combined financial statements represent reimbursable power activities of the generating agencies for repayment to the U.S. Treasury. The costs of multipurpose generating agency projects are assigned to specific hydroelectric power functions through a cost allocation process. Reclamation hydroelectric power amounts are allocated to the combined financial statements based on power repayment responsibility (note 6(b)). Reclamation has power-only facilities that are fully reimbursable, and has certain multi-purpose water resource projects where the costs are allocated among project activities, which primarily include power, irrigation, recreation, municipal and industrial water, navigation and flood control. Completed utility plant costs are allocated to the hydroelectric power portion of the Statement of Project Construction Cost and Repayment (SPCCR) based on studies prepared by Reclamation economists. The allocation method developed from the SPCCRs is applied to all multi-purpose utility plant and construction work-in-progress balances. In 2015, Reclamation elected to change the process related to the SPCCR on a prospective basis, which was previously prepared annually. Reclamation will now calculate a five-year average SPCCR rate to be used in the allocation process. Current assets and liabilities, excluding cash (note 1(g)), are allocated based upon the amounts directly recorded to power accounts. Revenue and expense accounts are also allocated based on the amounts directly recorded to power activities or amounts attributed to power repayment by Reclamation.

Corps and IBWC hydroelectric power amounts are allocated based on legislatively determined rates of power repayment responsibility. The Corps and IBWC have processes in their financial systems to track and allocate costs to be recovered from the System's customers.

To the extent possible, the generating agencies identify costs as direct costs. Direct costs are those that can be specifically identified to a power system, program or activity. In some cases, costs benefit two or more power systems, programs or activities; in these situations, it is not economically feasible to identify these costs as direct costs. Such costs include administrative support costs, space rental, utilities and office equipment. These costs are accumulated in indirect cost pools and allocated to the benefiting activities through a labor surcharge rate, based on direct labor charges.

(c) Confirmation and Approval of Rates

The System is not a public utility within the jurisdiction of FERC under the Federal Power Act. The Secretary of Energy (Secretary) has delegated authority to Western's Administrator to develop hydroelectric power and transmission rates for the individual power systems included in the combined financial statements. The Deputy Secretary of Energy has the authority to confirm, approve and place such rates in effect on an interim basis. FERC has the exclusive authority to confirm, approve and place into effect on a final basis, and to remand or to disapprove rates developed by Western's Administrator. FERC's review is limited to (1) whether the rates are the lowest possible consistent with sound business principles; (2) whether the revenue levels generated are sufficient to recover the costs of producing and transmitting electric energy including repayment within the period permitted by law; and (3) the assumptions and projections used in developing the rates. FERC shall reject decisions of Western's Administrator only if it finds them to be arbitrary, capricious or in violation of the law. Refunds with interest, as determined by FERC, are authorized if final rates approved are lower than rates approved on an interim basis. However, if at any time FERC determines that the administrative cost of a refund would exceed the amount to be refunded, no refunds will be required. No such refunds have been required or made in 2015 and 2014. As of September 30, 2015, none of the System's power systems were awaiting final rate approval.

Accounting policies also reflect specific legislation and executive directives issued by departments of the Federal government. Certain balances within the combined financial statements are accounted for under the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. The provisions of the ASC Topic 980 require, among other things, that regulated enterprises reflect the regulator's rate actions in its financial statements, when appropriate. The rate actions of Western's Administrator, subject to the limited authority of FERC, can provide reasonable assurance of the existence of an asset; reduce, eliminate or amortize the value of an asset; or impose a liability on a regulated enterprise.

(d) Payable to U.S. Treasury

Under the requirements of the power system's authorizing legislation and related Federal statues, the System is required to repay the U.S. Treasury all costs, including capital investment, allocated to hydroelectric power system activity. Obligations to the U.S. Treasury include activity within the Reclamation Fund and the U.S. Treasury's General Fund. Western's payable to the U.S. Treasury includes congressional appropriations, related interest, transfers of property and services, and payments to the U.S. Treasury (note 6). As discussed in note 6(c), effective September 30, 2014, Western was transferred program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund. Accordingly, the associated payable to U.S. Treasury and the corresponding receivable have been eliminated within Western for combination purposes.

(e) Operating Revenues and Accumulated Net Revenues (Deficit)

Operating revenues are recognized when goods or services are provided to the public or another government agency. Cash received from sales whose funding is derived from the U.S. Treasury's General Fund is deposited directly with the U.S. Treasury and is reflected as repayments to the U.S. Treasury, which is included in the payable to U.S. Treasury in the combined balance sheets. Cash received from sales whose funding is derived from the Reclamation Fund are reflected as restricted cash (note 1(g)) in the combined balance sheets, and represent both a repayment to the U.S. Treasury and reduction to the corresponding Reclamation Fund receivable. For power systems using revolving funds and customer advances, cash received is deposited in the U.S. Treasury and remains available to the power system; cash collected into revolving funds in excess of operating requirements is used for repayment of the payable to U.S. Treasury (note 6(a)).

Approved hydroelectric power and transmission rates are established under requirements of the power systems' authorizing legislation and related Federal statutes and are intended to provide sufficient revenue to recover all costs allocated to power and, in some power systems, a portion of irrigation-related costs (note 11(b)). Costs allocated to power include repayment to the U.S. Treasury in power facilities and associated interest. Rates are structured to provide for repayment of the payable in power facilities, generally over 50 years, while operating expenses and interest on the payable are recovered annually. Replacements of utility plant are generally to be repaid over their expected service lives.

Western and the generating agencies are nonprofit Federal agencies; therefore, accumulated net revenues of the hydroelectric power systems, to the extent that they are available, are committed to repayment. However, as of September 30, 2015 and 2014, the hydroelectric power systems, excluding the Reclamation Fund, have an accumulated net revenue of $10.0 million and net deficit of $156.2 million, respectively.

Western provides purchasing, selling, scheduling, billing, and other ancillary services on behalf of other Federal and non-Federal entities. The agent transactions are evaluated under the provisions of FASB ASC Subtopic 605-45, *Revenue Recognition – Principal Agent Considerations*, to determine whether the transactions should be reported at the gross or net value. Generally, the System's policy is to record agent activity at gross because Western typically shares in the risks and rewards of the transaction. In the event Western does not meet the indicators of gross reporting, the System records the activity at net value within the combined statements of revenue and expenses.

Western may provide multiple services to any one customer. Significant services may include the sale of electric power, ancillary services and the purchase and resale of electric power and transmission services. The System accounts for these arrangements in accordance with the provisions of FASB ASC Subtopic 605-25, *Revenue Recognition – Multiple-Element Arrangements*. Services qualify as separate units of accounting with distinguishable rates, terms, and delivery schedules. Services are provided to meet customer load requirements and revenues are recognized when services are provided.

Transmission and other operating revenues include items such as transmission services, power wheeling, and recreational fees. Other operating revenues consist of fee-for-service arrangements, typically on a reimbursable basis, for services performed by the System that are not a part of its core mission of marketing and transmitting hydroelectric power generated by the combined power systems.

(f) Deferred Revenue

During 2014, certain customers prepaid $124.0 million to satisfy the System's obligation to the U.S. Treasury for appropriations received for construction of the Hoover Dam visitor center and air slots. The prepayments were deposited into the U.S. Treasury and represent a reduction to the payable to U.S. Treasury on the combined balance sheets. Although the prepayments are considered repayments for rate setting purposes, the prepayment has been deferred for revenue recognition purposes until power is delivered. For the years ended September 30, 2015 and 2014, the System recognized $4.1 million and $4.1 million, respectively, of revenue relating to the Hoover Dam prepayment. As of September 30, 2015, the remaining deferred revenue balance of $115.8 million is expected to be fully realized over a period of 22 to 39 years, depending on the underlying repayment contract to which the prepayment relates, and includes the following items (in thousands):

	2014 Prepayment	Cumulative Earned Revenue	2015 Deferred Revenue
1995 visitor facility upgrade	$111,941	7,222	104,719
1988 air slots	8,996	750	8,246
2005 visitor facility upgrade	2,346	114	2,232
1993 air slots	687	47	640
Total	**$123,970**	**8,133**	**115,837**

The 1995 and 2005 visitor facility upgrades are expected to be realized over a period of 30 and 40 years, respectively; the 1988 and 1993 air slots are expected to be realized over a period of 23 and 28 years, respectively.

(g) Cash and Restricted Cash

Cash held by the System and the generating agencies represents the undisbursed balance of funds authorized by Congress, customer advances, revolving fund balances at the U.S. Treasury, and estimates of the amount of funds required to satisfy current hydroelectric power obligations.

Restricted cash represents the Reclamation Fund balance within Treasury Account Symbol 5000.27. These restricted funds represent cash received from sales of electric power whose funding is derived from the Reclamation Fund and deposited directly with the U.S. Treasury and are unavailable for power system operating needs without congressional action.

(h) Accounts Receivable, Net

Accounts receivable, net represents amounts billed to customers but not collected, net of the related allowance of $343 and $224 thousand as of September 30, 2015 and 2014, respectively. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances. Interest is charged on the principal portion of delinquent receivables based on rates published by the U.S. Treasury for the period in which the debt became delinquent. Delinquent receivables are charged off against the allowance once they are deemed uncollectible. Generally, all delinquent receivables are charged off once the delinquency exceeds two years or the debtor has filed for bankruptcy.

Billing methods used by the System include net billing and bill crediting. Net billing is a two-way agreement between Western and a customer, whereby both parties buy and sell power to each other. Monthly sales and purchases, including any customer advances received, are netted between the two parties and the customer is provided either an invoice or a credit. Bill crediting involves a three-way net billing arrangement among Western, a customer and a third party whereby all three parties are involved in purchase and sales transactions. Under both billing methods, purchase and sales transactions are reported "gross" in the combined financial statements.

(i) Construction Financing Receivable

Pursuant to the Recovery Act, Western may enter into public-private agreements to finance capital investments in transmission facilities that will assist in delivering renewable energy. Interest is accrued based on the terms of the financing agreement. As of September 30, 2015 and 2014, there was no construction financing receivables outstanding.

(j) Utility Plant, Moveable Equipment and Internal Use Software

Utility plant includes items such as dams, spillways, generators, turbines, substations and related components, and transmission lines and related components. Under FERC guidelines, utility plant is stated at original cost, net of contributions from external entities. Costs include direct labor and materials; payments to contractors; indirect charges for engineering, supervision, and overhead; and interest during construction. The costs of additions, major replacements and betterments are capitalized; whereas, repairs and maintenance are charged to operation and maintenance expense as incurred.

Plant assets of the combined power systems are currently depreciated using the straight-line method over the estimated service lives ranging from 8 to 50 years for transmission assets and 10 to 100 years for generation assets. Power rights are amortized over 40 years. The service lives of utility plant may be different between financial reporting and repayment measures. With the exception of Reclamation, the cost of retired utility plant, net of accumulated depreciation, is charged to operation and maintenance expense as a gain (loss), net of cash proceeds, if any; Reclamation's assets are divided into two categories: (1) assets in existence prior to October 1, 2013 and (2) assets acquired subsequent to September 30, 2013. For assets in existence prior to October 1, 2013, Reclamation utilizes the composite method of depreciation and, accordingly, the cost of retired utility plant is charged against accumulated depreciation. Beginning October 1, 2013, Reclamation implemented a new accounting system allowing for individual assets to be separately tracked rather than accounted for at the group level. Accordingly, assets acquired subsequent to September 30, 2013 are recorded as individual assets and the cost of retired utility plant, net of accumulated depreciation, is charged to operation and maintenance expense as a gain (loss), net of cash proceeds, if any.

Moveable equipment includes computers, copiers, cranes, energy testing equipment, helicopters, trucks and wood chippers. Moveable equipment is currently depreciated using the straight-line method over the estimated service lives ranging from 3 to 20 years. Moveable equipment is classified as other assets on the combined balance sheets (note 4).

Internal use software includes software purchased from commercial vendors "off the shelf" and internally developed software. The System's internal use software is depreciated over five years, using the straight-line method. Internal use software is classified as other assets on the combined balance sheets (note 4).

Most completed utility plant, as required by law, is recovered through the rates regardless of whether an asset is abandoned, loses value, is disposed of significantly before the end of its estimated useful life or is destroyed. Consequently, the cash flow is not impaired regardless of the condition of the asset.

The System's policy is to move capitalized costs into completed utility plant at the time a project or feature of a project is deemed to be substantially complete. A project is substantially complete when it is providing benefits and services for the intended purpose, and is generating project purpose revenue, where applicable.

(k) Interest on the Payable to U.S. Treasury

Interest, a component of total capitalization, is accrued annually on the payable to U.S. Treasury based on Federal statutes and power system legislation. Such interest is reflected as an expense in the combined financial statements. The System calculates interest annually based on the unpaid balances owed to the U.S. Treasury using rates set by law, administrative orders following law or administrative policies. Interest rates on unpaid balances ranged from 2.50% to 11.38% for the years ended September 30, 2015 and 2014.

As discussed in note 6(c), effective September 30, 2014, Western was transferred program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund. Accordingly, the associated interest on the payable to U.S. Treasury of $140.5 million has been eliminated within Western for combination purposes for the year ended September 30, 2015.

As provided by Federal law, interest is not assessed on unpaid balances in irrigation facilities anticipated to be repaid through power sales (note 11(b)).

(l) Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC or interest during construction) represents interest on funds borrowed from the U.S. Treasury during the construction of all generation and transmission facilities including assets allocated to project use energy. The System calculates AFUDC based on the average annual outstanding balance of construction work in progress and is calculated through the date in which assets are placed in service. AFUDC is capitalized and recovered over the repayment period of the related plant asset. Applicable interest rates ranged from 2.75% to 8.27% and 2.88% to 8.27% for the years ended September 30, 2015 and 2014, respectively, depending on the year in which construction on the transmission and generation facilities was initiated and requirements of the authorizing legislation.

(m) Transfers of Property and Services, Net

Transfers of property and services, net is a component of total capitalization that represents the receipt of unfunded transfers of assets or costs offset by the unfunded transfers of revenues. Transfers are recognized upon physical delivery of the asset or performance of the service. Transfers occur between projects, project types and other Federal entities. Transfers between Western and the generating agencies eliminate upon combination.

(n) Pension and Other Postretirement Benefits

Western and generating agency employees participate in one of the following contributory defined-benefit plans: the Civil Service Retirement System (CSRS) or Federal Employees Retirement System (FERS). Agency contributions are based on eligible employee compensation and total 7.0% for CSRS and up to 13.2% for FERS. These contributions are submitted to benefit program trust funds administered by the Office of Personnel Management (OPM). The System's contributions for the two plans amounted to $34.0 million and $30.2 million for the years ended September 30, 2015 and 2014, respectively. The contribution levels, as legislatively mandated, do not reflect the full-cost requirements to fund the CSRS or FERS pension plans. The additional cost of providing CSRS and FERS benefits is approximately 33.4% and 14.8% of base salary, respectively, and is funded by OPM.

In addition to the amounts contributed to the CSRS and FERS as stated above, the System recorded an expense for the pension and other postretirement benefits in the combined financial statements of $18.0 million and $20.9 million for the years ended September 30, 2015 and 2014, respectively. This amount reflects the contribution made on behalf of Western and the generating agencies by OPM to the benefit program trust funds. This expense will be recovered from power customers through the future sale of power.

Other postretirement benefits administered and partially funded by OPM are the Federal Employees Health and Benefits Program (FEHB) and the Federal Employee Group Life Insurance Program (FEGLI). FEHB is calculated at $5,469 and $5,169 per employee in fiscal years 2015 and 2014, respectively, and FEGLI is based on 0.02% of base salary for each employee enrolled in these programs.

As a Federal agency, all postretirement activity is managed by OPM; therefore, neither the assets of the plans nor the actuarial data with respect to the accumulated plan benefits relative to Western and generating agency employees are included in this report.

(o) Use of Estimates

System management utilizes estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and assumptions include the useful lives of completed utility plant; allowances for doubtful accounts; employee benefit obligations; environmental cleanup liabilities; and other contingencies. Estimates have also been used in allocating the reimbursable power activity of generating agencies for the purpose of repayment to the U.S. Treasury, and for allocating capital assets to project use energy. Actual results could differ significantly from these estimates.

(p) Derivative and Hedging Activities

The System analyzes derivative financial instruments under FASB ASC Topic 815, *Derivatives and Hedging*. This standard requires that all derivative instruments, as defined by ASC Topic 815, be recorded on the combined balance sheets at fair value, unless exempted. Changes in a derivative instrument's fair value must be recognized currently in the combined statements of revenues and expenses, unless the derivative has been designated in a qualifying hedging relationship. The application of hedge accounting allows a derivative instrument's gains and losses to offset related results of the hedged item in the combined statements of revenues and expenses to the extent effective. ASC Topic 815 requires that the hedging relationship be highly effective and that an organization formally designate a hedging relationship at the inception of the contract to apply hedge accounting.

Western enters into contracts for the purchase and sale of electricity for use in its business operations. ASC Topic 815 requires the System to evaluate these contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from ASC Topic 815 as normal purchases or normal sales. Normal purchases and sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented and exempted from the accounting and reporting requirements of ASC Topic 815.

The System's policy is to fulfill all derivative and hedging contracts by either providing power to a third party or by taking delivery of power from a third party as provided for in each contract. The System's policy does not authorize the use of derivative or hedging instruments for speculative purposes such as hedging electricity pricing fluctuations beyond Western's estimated capacity to deliver or receive power. Accordingly, the System evaluates all of its contracts to determine if they are derivatives and, if applicable, to ensure that they qualify and meet the normal purchases and normal sales designation requirements under ASC Topic 815. Normal purchases and normal sales contracts are accounted for as executory contracts as required under U.S. GAAP. As of September 30, 2015 and 2014, the System has no contracts accounted for as derivatives.

(q) Concentrations of Credit Risk

Financial instruments, which potentially subject the System to credit risk, include accounts receivable for customer purchases of power, transmission or other products and services. These receivables are primarily held with a group of diverse customers that are generally large, stable and established organizations, which do not represent a significant credit risk. Although the System is affected by the business environment of the utility industry, System management does not believe a significant risk of loss from a concentration of credit exists.

For TIP financed projects, risk exists at the individual project level and includes, but is not limited to: construction delays, cost overruns, contractor disputes, land acquisition and land right of way negotiations, weather-related delays and limitations, and regulatory review and approvals. Risk is mitigated through the application of due diligence efforts focused on the project developer. At the project level, this includes securitization of assets (first lien), parental guarantees, letters of credit and continuous monitoring of construction, financial and other material risks.

(r) Regulatory Assets (note 3)

Regulatory assets are assets that result from rate actions of Western's Administrator and other regulatory agencies. These assets arise from specific costs that would have been included in the determination of net revenue or deficit in one period, but are deferred until a different period for purposes of developing rates to charge for services, per the requirements of ASC Topic 980. The System defers costs as regulatory assets so that the costs will be recovered through the rates during the periods when the costs are scheduled to be paid. This ensures the matching of revenues and expenses. The System does not earn a rate of return on its regulatory assets. The assets listed below are regulatory in nature:

Workers' Compensation Actuarial Cost

The U.S. Department of Labor (DOL) determines an actuarial liability associated with cases incurred for which additional future claims may be made on an annual basis. DOL determines the actuarial liability associated with future claims using historical benefit payment patterns discounted to present value (37 years) using economic assumptions for 10-year U.S. Treasury notes and bonds.

The recovery of future claims is deferred for rate-making purposes until such time as the claims are submitted to and paid by DOL. Therefore, the recognition of the actuarial expense associated with hydroelectric power operations has been deferred as a regulatory asset in the combined balance sheets to reflect the effects of the rate-making process. The actuarial cost associated with TIP and other activities is expensed as incurred.

Abandoned Project Costs, Net

Occasionally, congressionally authorized projects originally planned for service are discontinued due to political and/or economic reasons. The System classifies these discontinued projects based on Congressional action as abandoned projects and amortizes them in the same manner as that used for rate-making purposes. The amortization period is a maximum of 50 years. These abandoned projects are considered regulatory assets because the costs are amortized into the power rates over a period of time, rather than being expensed in the year of the Congressional action. The discount rate on the System's abandoned projects is 3%.

Recovery Implementation Program (RIP)

Section 8 of the Colorado River Storage Project (CRSP) Act of 1956, as amended, mandates that DOI establish and implement programs to conserve fish and wildlife. Under this Act and other legislation, Reclamation has established programs to preserve the habitat and otherwise aid endangered fish and wildlife. The RIP is an example of such a program and is managed by the U.S. Fish and Wildlife Service. On October 30, 2000, Congress passed Public Law 106-392 that authorized additional funding to Reclamation to continue the RIP. The legislation specifies that a total of $17.0 million is to be collected by the System from its power customers and provided to Reclamation to finance capital costs. Repayment of amounts borrowed from the State of Colorado for the RIP and accrued interest were deferred until October 1, 2012. All interest accrued during the deferral period of $4.0 million was accreted into the outstanding principal balance. Commencing October 1, 2012, all costs are amortized to expense over the repayment period of 30 years. Total expense amortized was $0.3 million for the years ended September 30, 2015 and 2014.

Accrued Annual Leave

Accrued annual leave represents benefits that will be paid out to employees upon retirement or separation from employment with the government. The amount not funded by revolving funds has been deferred as a regulatory asset to reflect the effects of the rate-making process. Deferred annual leave costs are expensed as used.

Transmission Termination Settlement

Western renegotiated certain CRSP long-term contractual obligations with third-party power providers in 2007. Under the terms of the settlement agreements, annual payments of $0.6 million will be made through 2017 to PacifiCorp for a total of $6.0 million. The unpaid portion of the settlements has been deferred as a regulatory asset to reflect the effects of the rate-making process.

Extraordinary Maintenance

Extraordinary maintenance represents costs that occur infrequently, involve relatively large amounts of funds, and ensure the future economic usefulness of the asset. Criteria used to determine if a cost is extraordinary and should be treated as a regulatory asset include the total cost of the program, the rate impact the cost would have if recovered as a normal maintenance expense in one year, the current water conditions for the project, and whether significant rate increases had taken place over the previous 10 years.

Environmental Cleanup Liabilities (note 10)

Environmental liabilities represent the amount recorded for the estimated liability for projected future cleanup costs associated with removing, containing, and/or disposing of hazardous waste, including asbestos. A liability, as well as a regulatory asset, is recorded for the estimated environmental cleanup costs. The costs are recorded when the future remediation costs are known and estimable. The cost is deferred until incurred and recovered through the rate-making process.

(s) Interchange Energy and Energy Exchange (note 4)

Western's power contracts may include a provision for energy transfers and exchanges between Western and a supplier that result in claims or obligations to be settled at a future date, based on contractual provisions. Energy claims or obligations represent the valuation of excess energy delivered or received under the energy interchange and exchange contract provisions. The energy balance is recorded either as other assets when Western is the net supplier, or as other liabilities when Western is the net user. Transactions are recorded at the market value on the date of the transaction, under the provisions of ASC Topic 845, *Nonmonetary Transactions*, and are netted within purchase power expense as incurred under FERC regulations and rulings.

(t) Customer Advances

Customer advances represent the balance of advance payments received from power customers under co-sponsoring agreements with entities for construction, operation and maintenance or other furnished items. Subsidiary accounts are maintained by the customer to reflect the status of each advance. Also included are revenue financing contracts that provide advanced customer funds for construction, maintenance or purchase power expenses. For these contracts, the customer is provided revenue credits on future power bills up to the amount of the advanced funds and, if applicable, any interest or fees. Revenue is recognized upon application of bill credits.

(u) Taxes

As agencies of the U.S. Government, the System is exempt from all income taxes imposed by any governing body, whether it is a Federal, state or commonwealth of the United States or a local government.

(v) Fair Value of Financial Instruments

FASB ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of financial instruments. Fair value estimation methods for individual classes of financial instruments are described below.

Short-Term Financial Instruments

The carrying (recorded) value of short-term financial instruments, including cash, restricted cash, accounts receivable, other assets (excluding moveable equipment and internal use software) accounts payable, and certain customer advances and other liabilities, approximates the fair value of these instruments because of the short maturity of these instruments. The fair value of certain unfunded, actuarially based liabilities, and environmental cleanup liabilities cannot be determined as the future payout dates have yet to be determined.

Long-Term Liabilities

Fair value is estimated by computing the present value of future payments discounted at prevailing U.S. Treasury interest rates at year end. The fair value of long-term liabilities was $218.8 million and $203.0 million as of September 30, 2015 and 2014, respectively.

(w) Related Parties

As components of DOE, DOI, DOD, and State, these departments are considered related parties to the System. Western has certain agreements with DOE, DOI, and DOD to provide electric power, transmission services, and other services. As of September 30, 2015 and 2014, amounts outstanding in accounts receivable relating to related parties totaled $26.7 million and $28.4 million, respectively; for the years ended September 30, 2015 and 2014, total operating revenues earned from related party sources totaled $215.9 million and $250.3 million, respectively.

(x) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU No. 2014-09 is effective for the System for periods beginning after December 15, 2018, and early adoption is not permitted. ASU No. 2014-09 permits the use of either the retrospective or cumulative effect transition method. The System has not yet selected a transition method and is currently evaluating the effect that ASU No. 2014-09 will have on the System's combined financial statements and related disclosures.

(y) Reclassifications

Certain 2014 amounts have been reclassified to conform to the current year presentation.

(2) Hydroelectric Power Systems and Generating Agencies

Western markets and transmits hydroelectric power for 14 power systems. The expenses and net assets of the 14 power systems, which are generally expected to be recovered through rates, are included in the accompanying combined financial statements along with activity of the TIP program and other activity disclosed in note 1(a). Reclamation generates power for all power systems with the exception of Falcon-Amistad and Pacific Northwest-Pacific Southwest Intertie, which has only transmission facilities. The Pick-Sloan power system is unique in that both Reclamation and the Corps generate hydroelectric power for the power system. IBWC is Western's sole generation partner for the Falcon-Amistad power system. A listing of these power systems by generating agency includes:

Reclamation Power Systems

- Boulder Canyon
- Central Valley
- Collbran
- Colorado River Storage Project
- Dolores
- Fryingpan-Arkansas
- Parker-Davis
- Pick-Sloan Missouri River Basin
- Provo River
- Rio Grande
- Seedskadee
- Washoe

Corps Power System

- Pick-Sloan Missouri River Basin

IBWC Power System

- Falcon-Amistad

(3) Regulatory Assets

Regulatory assets (note 1(r)) as of September 30, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Extraordinary maintenance	$57,305	48,339
Workers' compensation actuarial cost	38,991	45,423
Accrued annual leave	18,967	16,605
Recovery implementation program	14,601	14,905
Environmental cleanup liabilities (note 10)	12,314	12,067
Abandoned project costs, net	4,418	5,444
Transmission termination settlement	1,000	1,600
Total regulatory assets	**$147,596**	**144,383**

As of September 30, 2015 and 2014, abandoned project costs, net include the Celilo-Mead transmission line, which is being amortized over 23 years, through 2019.

(4) Other Assets

Other assets as of September 30, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Moveable equipment, net (note 1(j))	$59,441	59,935
Stores inventory	21,964	21,033
Internal use software, net (note 1(j))	12,190	8,583
Advances to others	850	850
Interchange energy and energy exchange (note 1(s))	724	4,759
Assets under development	—	8,972
Other	7,876	5,190
Total other assets	**$103,045**	**109,322**

Under FERC requirements, the net revenue and expense activity in interchange energy and energy exchange is included in purchased power expense in the combined financial statements. The net activity included in purchased power expense was $4.0 million and $1.0 million for the years ended September 30, 2015 and 2014, respectively.

(5) Utility Plant

Utility plant as of September 30, 2015 and 2014 consists of the following (in thousands):

Utility plant:	2015	2014
Structures and facilities	$6,647,282	6,446,250
Buildings	515,312	486,869
Land	244,833	220,562
Power rights	178,380	169,282
Gross completed plant	7,585,807	7,322,963
Accumulated depreciation	(4,073,138)	(3,941,868)
Net completed plant	3,512,669	3,381,095
Construction work in progress	406,611	436,346
Net utility plant	**$3,919,280**	**3,817,441**

In accordance with FERC guidelines, the System excludes contributed plant within the combined balance sheets to eliminate the impact on power and transmission rates. As of September 30, 2015 and 2014, contributed plant, net used in the System's operations totaled $331.1 million and $335.5 million, respectively.

The balances shown above include project use utility plant amounts used to provide project benefits to water customers (note 6(a)). In addition to water benefits, the projects include other authorized benefits, such as support for fish and wildlife needs.

(6) Capitalization and Cost Allocation

(a) General

Capitalization consists of congressional appropriations and accumulated interest on unpaid balances, less net transfers of property and services from other Federal agencies and repayments to the U.S. Treasury, and accumulated net revenues (deficit). Capitalization also includes the portion of Western's Reclamation Fund (note 6(c)) that is not eliminated upon combination. Congressional appropriations are comprised of the cumulative appropriations received. Appropriations are allocated to the payable to U.S. Treasury or net revenues (deficit), based on expected use in reimbursable and nonreimbursable activities. All power systems, except Dolores, Seedskadee, Boulder Canyon and the operations and maintenance and purchased power programs of the Colorado River Storage Project (CRSP), are primarily financed through congressional appropriations. Dolores, Seedskadee, Boulder Canyon and the operations and maintenance programs of CRSP are funded through the use of a revolving fund. Revolving funds allow the System to utilize resources for reinvestment in power operations without congressional appropriations. A portion of construction and rehabilitation, operation and maintenance and purchased power expenditures are financed through other methods, such as advances from non-Federal entities, reimbursements from other Federal agencies, use of receipts authorization and alternative billing methods, such as net billing and bill crediting or any combination of these methods.

Although most of the appropriations received by the System are expected to be repaid through the collection of the power rate, some costs are not recoverable through the power rate. When costs are deemed not recoverable through the power rate, the funding for these amounts is not included in the payable to U.S. Treasury. These costs may be recovered through the water rate charged by Reclamation or may be deemed nonreimbursable by legislation; however, such recovery is not reflected in these combined financial statements. The amount of capital project use assets not recovered through the power rates as of September 30, 2015 and 2014 was $814.2 million and $800.9 million, respectively. Generating agency project use operation and maintenance costs not recovered through revenues are excluded from the combined financial statements.

Operating expenses (excluding depreciation expense) and interest on the unpaid balances are generally repaid annually. In cases where revenues are not available for repayment, unpaid annual net deficits become payable from the future years' revenues. Interest is accrued on cumulative annual net deficits until paid. Deficits for operating expenses begin to accrue interest in the year they occur, while interest expense deficits begin to accrue interest in the following year. In cases where funds are available, unless otherwise required by legislation, repayment of balances is applied first to the increment bearing the highest interest rate. There is no requirement for repayment of a specific amount on an annual basis.

(b) Capitalization in Multi-Purpose Facilities

Capitalization in certain multipurpose facilities, primarily dams and structures integral to hydroelectric power generation required to be repaid from the power revenues, has been determined from preliminary cost allocation studies based on project evaluation standards approved by Congress. Allocations between power and nonpower activities may be changed in future years; however, the project evaluation standards cannot be changed unless approved by Congress.

Final studies will be performed by the generating agencies, as appropriate, upon completion of each individual power project and are still pending for all but the Fryingpan-Arkansas Power System (FryArk), which was completed in 1993. The Boulder Canyon and Parker-Davis power systems are not subject to cost allocation studies since the power systems' enacting legislation requires the total costs of the dams and appurtenant structures be repaid through power revenues.

With final cost allocation studies still pending for many of the individual power systems, the potential exists for significant future adjustment in the Payable to U.S. Treasury for the cost of multi-purpose facilities allocated to power and the related accrued interest on the unpaid balance. Such reallocations could affect the future individual power system rates.

(c) Reclamation Fund Appropriations

In October 2014, as a result of discussions with OMB and the U.S. Treasury, DOE signed a memorandum of understanding with DOI transferring program management responsibility of Treasury Account Symbol 5000.27 within the Reclamation Fund to DOE on September 30, 2014. In conjunction with this transfer, Western recorded approximately $997.9 million in restricted cash, $3,485.4 million in other long-term receivables, and $4,483.3 million in accumulated net revenues as of September 30, 2014. As discussed in note 1(d), the payable to U.S. Treasury relating to the Reclamation Fund and related interest is eliminated upon combination. Nonetheless, Western has a legislative responsibility to set rates sufficient to repay monies appropriated from the Reclamation Fund, as well as related interest.

The following table presents the change in monies appropriated from the Reclamation Fund for the year ended September 30, 2015 and 2014 (in thousands):

	2015	2014
Reclamation Fund appropriations as of October 1	$3,485,459	3,205,177
Congressional appropriations	140,887	178,010
Interest	140,493	105,321
Transfers of property and services, net	11,231	9,684
Payments to U.S. Treasury	(231,640)	(12,733)
Reclamation Fund appropriations as of September 30	**$3,546,430**	**3,485,459**

(7) Long-Term Liabilities

Long-term liabilities, as of September 30, 2015 and 2014, consist of the following (in thousands):

Long-term liabilities:	2015	2014
Customer construction financing	$73,036	60,988
State of Wyoming loan	17,886	18,351
State of Colorado loan (note 1 (r))	14,601	14,905
Transmission Infrastructure Program	96,966	91,787
Total long-term liabilities	**$202,489**	**186,031**

Outstanding long-term liabilities, as of September 30, 2015, are scheduled to be credited or repaid as follows (in thousands):

Year ending September 30:	Principal	Interest	Total
2016	$32,145	7,914	40,059
2017	39,311	5,969	45,280
2018	4,391	4,795	9,186
2019	2,271	4,632	6,903
2020	2,363	4,540	6,903
2021 and thereafter	122,008	74,563	196,571
Total outstanding long-term liabilities	**$202,489**	**102,413**	**304,902**

(a) Customer Construction Financing

Western enters into long-term financing arrangements with customers for project improvements and construction of interconnection facilities. These obligations are scheduled to be satisfied through issuing credits against future power bills. Outstanding customer financing obligations, as of September 30, 2015 and 2014, consist of the following (in thousands):

Project	Terms	2015	2014
Hoover Dam Generating Units		$22,688	34,696
Power System	Boulder Canyon		
Maturity	2017		
Interest Rate	5.3% to 8.2%		
Terry Ranch Road Substation		12,638	—
Power System	Pick-Sloan Missouri River Basin		
Maturity	2017		
Interest Rate	3.0%		
Flagstaff Project		8,478	9,000
Power System	Colorado River Storage Project		
Maturity	2035		
Interest Rate	0%		
Buffalo Head Switching Station		7,770	—
Power System	Pick-Sloan Missouri River Basin		
Maturity	2042		
Interest Rate	3.0% - once project becomes operational		
Zorb Project		7,601	7,601
Power System	Parker-Davis		
Maturity	2035		
Interest Rate	0%		
Griffith McConnico & Peacock Transmission Lines & Switching Station		7,404	9,691
Power System	Parker-Davis & Intertie		
Maturity	2018		
Interest Rate	8.5%		
Kersey West Switching Station		4,990	—
Power System	Pick-Sloan Missouri River Basin		
Maturity	2016		
Interest Rate	3.0%		
Kofa Capacitor Bank Project		797	—
Power System	Parker-Davis		
Maturity	2016		
Interest Rate	0%		
Buckskin to Planet Tap Project		670	—
Power System	Parker-Davis		
Maturity	2016		
Interest Rate	0%		
Total		**$73,036**	**60,988**

(b) State of Wyoming Loan

Reclamation received a loan from the State of Wyoming for providing partial financing for improvements at the Buffalo Bill Dam (Pick-Sloan Missouri Basin power system) and associated hydroelectric power plants. This liability is being repaid over a period of 35 years, which began in 1996, at an approximate interest rate of 11.1%.

(c) State of Colorado Loan

Western received a loan from the State of Colorado for $5.5 million in December 2002 at an interest rate of 4.5% per year. Another $5.9 million was received in December 2004 with an interest rate of 3.25%. The purpose of these loans was to fund Reclamation's endangered fish recovery implementation programs (note 1(r)). Interest began accruing at the time loans were granted and was accreted into the outstanding principal balance until repayment began in 2012. The loan will be repaid through power revenues through 2041.

(d) Transmission Infrastructure Program

Western borrows funds for the Trans West Express (TWE) project which is a proposed interstate high-voltage direct current (HVDC) development effort spanning 725 miles from south central Wyoming to the El Dorado Valley south of Las Vegas, Nevada. The White House Office of Management and Budget (OMB) authorized the use of up to $25 million in borrowing authority to finance this development phase of the project. In 2014, Western capped those costs at $21 million. Costs incurred relative to TWE are expensed as incurred, and are audited by Western. Interest rates on the loan ranged between .02% and .64% and 0.05% and 0.14% during fiscal years 2015 and 2014, respectively. As of September 30, 2015 and 2014, the outstanding amount borrowed was $20.8 million.

Western borrows funds from the U.S. Treasury for the Electrical District No. 5 to Palo Verde Hub (ED5-PVH) project. The ED5-PVH project is a 109-mile transmission project which encompasses the acquisition of 64 miles of capacity rights in the new Southeast Valley Project from the Duke/Test Track Substation to the Palo Verde Hub; and new construction of 45 miles of a Western transmission line and upgraded facilities from the ED5 Substation to the Test Track Substation. The OMB authorized use of up to $91 million in borrowing authority to finance the construction and related costs of the ED5-PVH project. Interest rates on the loan ranged between .02% to 3.03% and 0.09% to 0.13% during fiscal years 2015 and 2014, respectively. As of September 30, 2015 and 2014, the outstanding amount borrowed was $76.2 million and $71.0 million, respectively. In 2015, the project was completed and the outstanding loan was converted to a 30-year long-term financing agreement with the U.S. Treasury. The principle is due at maturity in 2045 while interest is due semi-annually at a rate of 3.03%.

(8) Customer Advances and Other Liabilities (in thousands)

	2015	2014
Customer advances (note 1(t))	$130,558	130,039
Workers' compensation actuarial liability	39,117	45,574
Accrued annual leave	18,967	16,605
Accrued payroll benefits	14,330	14,278
Due to other federal agencies	10,607	14,752
Legal claims and settlements (note 11(a))	9,400	9,400
Workers' compensation accrual	7,882	7,702
Transmission termination settlement	1,000	1,600
Other	5,612	5,547
Total customer advances and other liabilities	**$237,473**	**245,497**

(9) Lease Commitments

The System has three noncancelable operating leases. The first is for Western's headquarters office building in Lakewood, Colorado. The lease is for a term of 15 years with an annual cost of approximately $1.8 million. Second, a noncancelable operating lease for two rooms in the Blake Street Building in Salida, Colorado. This lease is for a term of three years, with a two-year renewal option, at an annual cost of approximately $12 thousand. Third, Western has a contract with Southern California Edison Company for the lease of two 230-kV transmission lines from the Hoover Power plant to Mead Substation. The contract provides Western the right to extend the lease indefinitely, but Western may terminate this contract upon three years written notice to the contractor. The lease represents an annual expense of approximately $209 thousand.

The System has several cancelable operating leases, primarily for general purpose motor vehicles, office, and warehouse space that expire during the next 15 years. The right to relinquish space on cancelable leases is available with 120-day notice to terminate. The General Services Administration is generally the leaseholder for all cancelable equipment and building leases.

These leases generally contain renewal options for periods ranging from three to five years and require the lessee to pay all costs, such as maintenance and insurance.

Rental expense for operating leases was approximately $7.5 million for the years ended September 30, 2015 and 2014.

(10) Environmental Cleanup Liabilities

The Desert Southwest Region of Western has been engaged in remediating the Basic Substation located in Henderson, Nevada, since 1991. This site, which was built in 1942 to provide power to a local magnesium plant, was decommissioned in 2002. Rather than address all contamination at the site at once, the remediation has been pursued in a staged process, in parallel with demolition work to reduce the impact on annual budgets. The remediation was financed with nonreimbursable funding in 2010; therefore, it has no impact on the power rates. The estimated liability to remediate the Basic Substation was $1.2 million and $2.9 million as of September 30, 2015 and 2014, respectively.

Western's environmental liabilities also include the estimated cleanup costs for asbestos. Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing of (1) asbestos-containing materials from property, or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated property, plant, and equipment. Western has estimated cleanup costs based on an inventory of assets and estimated cleanup costs per square foot, consistent with cost factors prescribed by DOE. The estimated liability for asbestos-related cleanup costs was approximately $12.3 million and $12.1 million as of September 30, 2015 and 2014, respectively. The asbestos-related cleanup costs are deferred as a regulatory asset until actual cleanup expenditures are incurred (note 1(r)). It is reasonably possible that a change in environmental liability estimate will occur.

(11) Commitments and Contingencies

(a) General

The System is involved in various claims, suits and complaints routine to the nature of their business as of September 30, 2015 and 2014. Liabilities for these claims, as reported in the combined financial statements, are based on reported pending claims, or estimates of claims incurred but not yet reported. It is System management's opinion that the ultimate disposition of these claims will not have a material adverse effect on the combined financial statements. In some cases, a portion of any loss that may occur may be paid from the U.S. Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government. Power-related claims related to the generating agencies, whose ultimate disposition will be paid by the Judgment Fund and are not subject to reimbursement from power revenues, are excluded from the combined financial statements and related footnote disclosures.

As of September 30, 2015 and 2014, the System has accrued contingent liabilities of $9.4 million, where losses are determined to be probable and the amounts can be estimated. It is reasonably possible that a change in estimate will occur. However, any associated losses are expected to be paid by the Judgment Fund.

(b) Irrigation Assistance

Federal statute requires that certain individual power systems repay the U.S. Treasury the portion of Reclamation's project capital costs allocated to irrigation purposes determined by the Secretary of the Interior to be beyond the ability of the irrigation customers to repay. As a result, the System has included these capital costs in each respective power system's power repayment study. The System intends to collect the necessary revenue from power customers in accordance with the required repayment periods based on legislation, which generally does not exceed a maximum period of 50 years. These repayment amounts do not incur or accumulate interest from the date that Reclamation determines the irrigators' inability to pay. Although these repayments will be recovered through power sales, they do not represent an operating cost of the individual power systems and are treated as distributions from accumulated net revenues (deficit) in the combined statements of changes in capitalization at the time of repayment. Legislation provisions require that other costs have priority for recovery through power rates before irrigation capital costs including, but not limited to, higher interest investments and operation and maintenance and purchased power expenses. Anticipated irrigation assistance payments are not recorded as a liability on the combined balance sheets because of the following factors: (1) the System's ability to make anticipated payments is contingent on future rates and revenues, which are driven by highly variable factors such as water levels and the generating agencies' ability to produce hydroelectric power and (2) the System is capable of deferring the period of repayment to unspecified periods in the future.

Power repayment studies are one year in arrears. As of September 30, 2015, anticipated irrigation assistance totaled approximately $1.8 billion, which may be repaid from future power revenues. The 2015 power repayment studies have not been completed as of the date of this report. No irrigation assistance payments were made in 2015 and 2014.

Anticipated irrigation assistance payments are as follows (in thousands):

Year ending September 30:	Amount
2016	$8,610
2017	4,386
2018	—
2019	—
2020	51,505
2021 and thereafter	1,780,109
Total anticipated irrigation assistance payments	**$1,844,610**

(c) Upper Colorado River Basin Project Funding

Among the purposes of the Colorado River Storage Project Act (CRSPA) is the comprehensive development of the water resources of the Upper Colorado River Basin (UCRB). A feature of section 5(e) of CRSPA is the use of hydroelectric power revenues to aid in development and repayment of certain irrigation costs of participating projects within the Upper Colorado River Basin. Current and future estimated collection of revenues required under CRSPA for irrigation assistance is beyond what is necessary to repay the irrigation components of the completed and under construction irrigation projects (note 11(b)). Revenues in excess of that required for irrigation assistance are authorized to be expended on projects within the UCRB. The System has entered into a Memorandum of Agreement (MOA) with upper division states of Colorado, New Mexico, Utah and Wyoming to fund projects within UCRB, and project payments are expensed as incurred. For the years ended September 30, 2015 and 2014, project payments of $3.4 million and $3.0 million, respectively, are included in the combined statements of revenues and expenses.

Anticipated projects payments are as follows (in thousands):

Year ending September 30:	Amount
2016	$35,297
2017	11,500
2018	11,500
2019	11,500
2020	11,500
2021 and thereafter	66,186
Total anticipated project payments	**$147,483**

(d) Power Contract Commitments

Western has entered into various agreements for power and transmission purchases that vary in length but generally do not exceed 20 years. The current period purchased power and purchased transmission costs are included in the combined statements of revenues and expenses. The System's long-term commitments for these power and transmission contracts, subject to the availability of Federal funds and contingent upon annual appropriations from Congress, are as follows (in thousands):

Year ending September 30:	Purchased power	Purchased transmission	Total
2016	$42,504	8,690	51,194
2017	43,215	8,690	51,905
2018	25,382	8,535	33,917
2019	18,316	8,535	26,851
2020	—	8,535	8,535
2021 and thereafter	—	90,548	90,548
Total	**$129,417**	**133,533**	**262,950**

In addition to these contracts, Western maintains other long-term contracts which provide the ability to purchase unspecified quantities of transmission services within a contractually determined range and rate. To fulfill its contractual obligations to deliver power, the System has historically had to purchase a certain level of transmission services under these agreements.

(e) Construction in Abeyance

Construction in abeyance refers to long-term construction projects that have been suspended for a period of time due to legal, political or other reasons. There are several Reclamation construction projects that were placed in abeyance in the past. The Auburn dam, power plant and reservoir project was placed in abeyance due to a risk of major damage to the dam as a result of an earthquake in 1975. Although Reclamation has allocated a portion of the initial construction costs to hydroelectric power, these costs continue to be excluded from the System's rate-making processes until a final determination is made by Congress as to whether the project will be revised or deauthorized. As of September 30, 2015, power repayment is considered remote, and therefore, construction costs of $45.7 million, including AFUDC, are not included in the combined financial statements. If the project is ultimately completed, there is a possibility that the associated costs may be repaid through future hydroelectric power rates.

(12) Subsequent Events

Western has evaluated subsequent events through the date the combined financial statements were available to be issued as of March 28, 2016 and identified no subsequent events.

Combining Schedule of Balance Sheet Data

Schedule 1

September 30, 2015 (In thousands)

	Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Assets						
Completed utility plant	$7,430,053	69,667	86,087	—	—	7,585,807
Accumulated depreciation	(4,051,381)	(1,635)	(20,122)	—	—	(4,073,138)
Net completed plant	3,378,672	68,032	65,965	—	—	3,512,669
Construction work in progress	388,520	105	17,986	—	—	406,611
Net utility plant	3,767,192	68,137	83,951	—	—	3,919,280
Cash	1,379,622	16,962	120,324	—	—	1,516,908
Restricted cash	—	—	—	1,066,864	—	1,066,864
Accounts receivable, net	146,900	837	11,465	—	—	159,202
Regulatory assets	147,306	—	290	—	—	147,596
Other assets	102,037	—	1,008	3,546,430	(3,546,430)	103,045
Total assets	**$5,543,057**	**85,936**	**217,038**	**4,613,294**	**(3,546,430)**	**6,912,895**
Total Liabilities and Capitalization						
Liabilities:						
Long-term liabilities	$105,523	96,966	—	—	—	202,489
Customer advances and other liabilities	128,432	945	108,096	—	—	237,473
Deferred revenue	115,837	—	—	—	—	115,837
Accounts payable	63,510	10	4,841	—	—	68,361
Environmental cleanup liabilities	12,313	—	1,233	—	—	13,546
Total liabilities	**425,615**	**97,921**	**114,170**	**—**	**—**	**637,706**
Capitalization:						
Payable to U.S. Treasury	5,107,455	—	4,136	—	(3,546,430)	1,565,161
Accumulated net revenues (deficit)	9,987	(11,985)	98,732	4,613,294	—	4,710,028
Total capitalization	**5,117,442**	**(11,985)**	**102,868**	**4,613,294**	**(3,546,430)**	**6,275,189**
Total liabilities and capitalization	**$5,543,057**	**85,936**	**217,038**	**4,613,294**	**(3,546,430)**	**6,912,895**

See accompanying independent auditors' report.

Combining Schedule of Balance Sheet Data

Schedule 1

September 30, 2014 (In thousands)

	Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Assets						
Completed utility plant	$7,236,967	—	85,996	—	—	7,322,963
Accumulated depreciation	(3,925,848)	—	(16,020)	—	—	(3,941,868)
Net completed plant	3,311,119	—	69,976	—	—	3,381,095
Construction work in progress	355,633	64,831	15,882	—	—	436,346
Net utility plant	3,666,752	64,831	85,858	—	—	3,817,441
Cash	1,278,048	15,705	104,566	—	—	1,398,319
Restricted cash	—	—	—	997,871	—	997,871
Accounts receivable, net	148,007	80	14,301	—	—	162,388
Regulatory assets	144,034	—	349	—	—	144,383
Other assets	107,249	—	2,073	3,485,459	(3,485,459)	109,322
Total assets	**$5,344,090**	**80,616**	**207,147**	**4,483,330**	**(3,485,459)**	**6,629,724**
Total Liabilities and Capitalization						
Liabilities:						
Long-term liabilities	$94,244	91,787	—	—	—	186,031
Customer advances and other liabilities	152,519	857	92,121	—	—	245,497
Deferred revenue	119,904	—	—	—	—	119,904
Accounts payable	78,151	458	3,817	—	—	82,426
Environmental cleanup liabilities	12,066	—	2,949	—	—	15,015
Total liabilities	**456,884**	**93,102**	**98,887**	**—**	**—**	**648,873**
Capitalization:						
Payable to U.S. Treasury	5,043,421	—	6,001	—	(3,485,459)	1,563,963
Accumulated net revenues (deficit)	(156,215)	(12,486)	102,259	4,483,330	—	4,416,888
Total capitalization	**4,887,206**	**(12,486)**	**108,260**	**4,483,330**	**(3,485,459)**	**5,980,851**
Total liabilities and capitalization	**$5,344,090**	**80,616**	**207,147**	**4,483,330**	**(3,485,459)**	**6,629,724**

See accompanying independent auditors' report.

Combining Schedule of Revenues and Expenses Data — Schedule 2

Year ended September 30, 2015 (In thousands)

	Hydroelectric power systems	Transmission Infrastructure Program	Other activities	Reclamation Fund	Elimination	Total
Operating revenues:						
Sales of electric power	$895,674	—	14,988	—	—	910,662
Transmission and other operating revenues	362,173	6,549	66,422	140,493	(140,493)	435,144
Total operating revenues	**1,257,847**	**6,549**	**81,410**	**140,493**	**(140,493)**	**1,345,806**
Operating expenses:						
Operation and maintenance	485,278	2,447	61,411	—	—	549,136
Purchased power	165,880	—	21,133	—	—	187,013
Purchased transmission services	78,947	—	—	—	—	78,947
Depreciation	134,571	1,635	4,262	—	—	140,468
Administration and general	60,568	1,038	6,383	—	—	67,989
Total operating expenses	**925,244**	**5,120**	**93,189**	**—**	**—**	**1,023,553**
Net operating revenues (expenses)	**332,603**	**1,429**	**(11,779)**	**140,493**	**(140,493)**	**322,253**
Interest expenses:						
Interest on payable to U.S. Treasury	190,027	—	16	—	(140,493)	49,550
Allowance for funds used during construction	(16,473)	—	—	—	—	(16,473)
Net interest on payable to U.S. Treasury	173,554	—	16	—	(140,493)	33,077
Interest on long-term liabilities	6,319	917	—	—	—	7,236
Net interest expense	**179,873**	**917**	**16**	**—**	**(140,493)**	**40,313**
Net revenues (deficit)	**$152,730**	**512**	**(11,795)**	**140,493**	**—**	**281,940**

See accompanying independent auditors' report.

Combining Schedule of Revenues and Expenses Data — Schedule 2

Year ended September 30, 2014 (In thousands)

	Hydroelectric power systems	Transmission infrastructure program	Other activities	Reclamation Fund	Elimination	Total
Operating revenues:						
Sales of electric power	$885,029	—	47,504	—	—	932,533
Transmission and other operating revenues	342,058	2,970	80,262	—	—	425,290
Total operating revenues	**1,227,087**	**2,970**	**127,766**	**—**	**—**	**1,357,823**
Operating expenses:						
Operation and maintenance	448,234	2,485	78,853	—	—	529,572
Purchased power	285,668	—	47,477	—	—	333,145
Purchased transmission services	71,369	—	1,956	—	—	73,325
Depreciation	131,718	—	5,122	—	—	136,840
Administration and general	55,277	1,332	6,024	—	—	62,633
Total operating expenses	**992,266**	**3,817**	**139,432**	**—**	**—**	**1,135,515**
Net operating revenues (expenses)	**234,821**	**(847)**	**(11,666)**	**—**	**—**	**222,308**
Interest expenses:						
Interest on payable to U.S. Treasury	188,004	—	12	—	—	188,016
Allowance for funds used during construction	(13,330)	—	—	—	—	(13,330)
Net interest on payable to U.S. Treasury	174,674	—	12	—	—	174,686
Interest on long-term liabilities	7,082	101	—	—	—	7,183
Net interest expense	**181,756**	**101**	**12**	**—**	**—**	**181,869**
Net revenues (deficit)	**$53,065**	**(948)**	**(11,678)**	**—**	**—**	**40,439**

See accompanying independent auditors' report.

Combining Schedule of Balance Sheet Data by Agency — Schedule 3

September 30, 2015 (In thousands)

	Western	Generating agencies	Total
Assets			
Completed utility plant	$4,177,731	3,408,076	7,585,807
Accumulated depreciation	(1,994,369)	(2,078,769)	(4,073,138)
Net completed plant	2,183,362	1,329,307	3,512,669
Construction work in progress	127,124	279,487	406,611
Net utility plant	2,310,486	1,608,794	3,919,280
Cash	1,149,775	367,133	1,516,908
Restricted cash	1,066,864	—	1,066,864
Accounts receivable, net	156,111	3,091	159,202
Regulatory assets	58,439	89,157	147,596
Other assets	96,006	7,039	103,045
Total assets	**$4,837,681**	**2,075,214**	**6,912,895**
Total Liabilities and Capitalization			
Liabilities:			
Long-term liabilities	$161,915	40,574	202,489
Customer advances and other liabilities	189,935	47,538	237,473
Deferred revenue	—	115,837	115,837
Accounts payable	50,075	18,286	68,361
Environmental cleanup liabilities	11,882	1,664	13,546
Total liabilities	**413,807**	**223,899**	**637,706**
Capitalization:			
Payable to U.S. Treasury	622,064	943,097	1,565,161
Accumulated net revenues	3,801,810	908,218	4,710,028
Total capitalization	**4,423,874**	**1,851,315**	**6,275,189**
Total liabilities and capitalization	**$4,837,681**	**2,075,214**	**6,912,895**

See accompanying independent auditors' report.

Combining Schedule of Balance Sheet Data by Agency — Schedule 3

September 30, 2014 (In thousands)

	Western	Generating agencies	Total
Assets			
Completed utility plant	$3,949,394	3,373,569	7,322,963
Accumulated depreciation	(1,905,303)	(2,036,565)	(3,941,868)
Net completed plant	2,044,091	1,337,004	3,381,095
Construction work in progress	212,304	224,042	436,346
Net utility plant	2,256,395	1,561,046	3,817,441
Cash	1,053,810	344,509	1,398,319
Restricted cash	997,871	—	997,871
Accounts receivable, net	159,489	2,899	162,388
Regulatory assets	62,904	81,479	144,383
Other assets	102,452	6,870	109,322
Total assets	**$4,632,921**	**1,996,803**	**6,629,724**
Total Liabilities and Capitalization			
Liabilities:			
Long-term liabilities	$132,984	53,047	186,031
Customer advances and other liabilities	196,444	49,053	245,497
Deferred revenue	—	119,904	119,904
Accounts payable	67,577	14,849	82,426
Environmental cleanup liabilities	13,709	1,306	15,015
Total liabilities	**410,714**	**238,159**	**648,873**
Capitalization:			
Payable to U.S. Treasury	635,798	928,165	1,563,963
Accumulated net revenues	3,586,409	830,479	4,416,888
Total capitalization	**4,222,207**	**1,758,644**	**5,980,851**
Total liabilities and capitalization	**$4,632,921**	**1,996,803**	**6,629,724**

See accompanying independent auditors' report.

Combining Schedule of Revenues and Expenses Data by Agency — Schedule 4

Year ended September 30, 2015 (In thousands)

	Western	Generating agencies	Total
Operating revenues:			
Sales of electric power	$594,342	316,320	910,662
Transmission and other operating revenues	412,415	22,729	435,144
Total operating revenues	**1,006,757**	**339,049**	**1,345,806**
Operating expenses:			
Operation and maintenance	297,075	252,061	549,136
Purchased power	187,013	—	187,013
Purchased transmission services	78,947	—	78,947
Depreciation	100,197	40,271	140,468
Administration and general	67,932	57	67,989
Total operating expenses	**731,164**	**292,389**	**1,023,553**
Net operating revenues	**275,593**	**46,660**	**322,253**
Interest expenses:			
Interest on payable to U.S. Treasury	12,376	37,174	49,550
Allowance for funds used during construction	(7,573)	(8,900)	(16,473)
Net interest on payable to U.S. Treasury	4,803	28,274	33,077
Interest on long-term liabilities	2,371	4,865	7,236
Net interest expense	**7,174**	**33,139**	**40,313**
Net revenues	**$268,419**	**13,521**	**281,940**

See accompanying independent auditors' report.

Combining Schedule of Revenues and Expenses Data by Agency — Schedule 4

Year ended September 30, 2014 (In thousands)

	Western	Generating agencies	Total
Operating revenues:			
Sales of electric power	$489,219	443,314	932,533
Transmission and other operating revenues	403,907	21,383	425,290
Total operating revenues	**893,126**	**464,697**	**1,357,823**
Operating expenses:			
Operation and maintenance	297,675	231,897	529,572
Purchased power	333,145	—	333,145
Purchased transmission services	73,325	—	73,325
Depreciation	93,615	43,225	136,840
Administration and general	62,573	60	62,633
Total operating expenses	**860,333**	**275,182**	**1,135,515**
Net operating revenues	**32,793**	**189,515**	**222,308**
Interest expenses:			
Interest on payable to U.S. Treasury	132,537	55,479	188,016
Allowance for funds used during construction	(6,017)	(7,313)	(13,330)
Net interest on payable to U.S. Treasury	126,520	48,166	174,686
Interest on long-term liabilities	1,722	5,461	7,183
Net interest expense	**128,242**	**53,627**	**181,869**
Net revenues (deficit)	**$(95,449)**	**135,888**	**40,439**

See accompanying independent auditors' report.

WESTERN'S SENIOR EXECUTIVE TEAM*

Administrator and Chief Executive Officer	MARK A. GABRIEL
Executive Vice President and Chief Operations Officer	TONY MONTOYA
SVP and Chief Financial Officer	LINDA KIMBERLING
SVP and Chief Information Officer	DAWN ROTH LINDELL
SVP and General Counsel	JOHN BREMER
SVP and Assistant Administrator for Corporate Liaison	MIKE McELHANY
SVP and Colorado River Storage Project Management Center Manager	LYNN JEKA
SVP and Desert Southwest Regional Manager	RON MOULTON
SVP and Rocky Mountain Regional Manager	BRAD WARREN
SVP and Sierra Nevada Regional Manager	SUBHASH PALURU
SVP and Upper Great Plains Regional Manager	BOB HARRIS
SVP and Transmission Infrastructure Program Manager	TRACEY LeBEAU

EX-OFFICIO MEMBERS

Power Marketing Advisor	PENNY CASEY
VP of Human Resources	TERESA GARCIA
Chief of Staff	ERIN GREEN
Economic Impact and Diversity Manager	CHARLES MARQUEZ
Chief Strategy Integrator	DENNIS SULLIVAN
Chief Public Affairs Officer	TERESA WAUGH

* NOTE: Although included in the Fiscal Year 2015 Annual Report, this information reflects the Senior Executive Team as of March 28, 2016.

CONTACT WESTERN

Call or write your local Western office or Public Affairs in Lakewood, Colorado, to share your comments or to find out more about Western. Our addresses and phone numbers are listed below.

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720-962-7050

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P.O. Box 35800
Billings, MT 59107-5800
406-255-2800

ROCKY MOUNTAIN REGIONAL OFFICE
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Loveland, CO 80539-3003
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